Scottish Widows Unit Trust Managers Limited

Annual Report and Accounts

2021

Member of Lloyds Banking Group

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COMPANY INFORMATION

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STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Unit Trust Managers Limited (the 'Company') for the year ended 31 December 2021.

The Company is a subsidiary within Scottish Widows Group Limited (Scottish Widows) and contributes to the results of the Insurance and Wealth Division of Lloyds Banking Group.

Principal activities

The principal activity of the Company is to act as the Authorised Corporate Director (ACD) for the management of Individual Savings Accounts (ISAs) and Open Ended Investment Company (OEIC) sub-funds.

Result for the Year

The result of the Company for the year ended 31 December 2021 is a profit after tax of £5.8 million (2020: £19.5 million - restated). The result is reflective of reduced income from annual management charges (AMC) as a result of changes to the rates in June 2021, and an increase in administrative expenses compared to the prior year. A prior year restatement resulting in a £2.7 million increase is included in prior year Revenue with details disclosed in note 26.

There was a £10.1 million (11.4 per cent) fall in revenue from AMCs during the year which is largely driven by net retail outflows, and the reduced AMC rates (2020 : £44.2 million decrease).

Administrative expenses increased by £12.4 million (20.6 per cent) (2020 : £54.3 million decrease). The key drivers for this were a £13.1 million increase in recharges from other group companies in 2021. Included in these recharges was an increase of £9.3 million investment costs related to the planned migration of customers on to a new policy administration system. Separately, there was a £1.4 million increase in investment expenses in the current year, which is primarily due to average funds under management (FUM) being higher than 2020 as markets started to recover from the initial impact of the Coronavirus pandemic. Offsetting these increases, was a fall in custody fees of £2.3 million, due to rebates resulting from a modification of previous billing arrangements.

Total equity for the Company increased by £5.8 million (2020 : £176.6 million decrease), reflecting current year profit retained in cash equivalents.

The United Kingdom leaving the European Union

Following the end of the Implementation Period on 31 December 2020, European Union (EU) laws have ceased to apply to the United Kingdom (UK). While existing EU laws applicable to the UK as at 31 December 2020 have been retained in UK law, the end of the Implementation Period has resulted in the loss of EU ‘passporting rights’, meaning UK firms can no longer carry on financial services in the European Economic Area without direct authorisation. There is no change for persons resident in the UK, who can continue to apply for and utilise our products and services. Persons resident outside the UK are ineligible to apply for our products and services, while certain restrictions may apply in respect of any existing products and services provided to non-UK residents.

Coronavirus

The Coronavirus (Covid-19) outbreak has impacted Global economies throughout the year creating an ongoing period of volatility in financial markets. At the beginning of the Coronavirus outbreak the UK experienced significant volatility in market prices, however market liquidity remains relatively strong and so does the ability to trade in size across most asset classes.

The Company's resilience to such events is regularly reviewed through stress and scenario testing. Plans to continue to operate Important Business Services are in place and continue to be reviewed in light of the Covid-19 outbreak. The Covid-19 response framework will be triggered if there are any strains in the operational environment. Risk Surgeries, (agile governance meetings established by Senior Management from across the business to support proposed changes) continue to play an important role in governing requests for temporary process or control amendments, to ensure that these are risk assessed, approved, and where appropriate, applied in a controlled manner with continued necessity to be revisited. A key focus of the Risk Surgery is to ensure that customers receive fair treatment, including in relation to vulnerabilities.

Climate Change

The Company is a subsidiary of Lloyds Banking Group. Lloyds Banking Group is committed to supporting the aims of the 2015 Paris Agreement, the UK Government’s Net Zero target and Ten Point Plan for a Green Industrial Revolution, in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

As part of Lloyds Banking Group, Scottish Widows has published a climate plan that sets out a long-term strategy with actions to drive the investment portfolio towards net zero by 2050, formulated in a manner that prioritises customer goals within decision-making.

The Company is supportive of the Task Force on Climate Related Financial Disclosures (TCFD) framework and related regulatory expectations, and aligned to best practice outlined by the Climate Financial Risk Forum (CFRF), Scottish Widows will publish a TCFD report on the Scottish Widows website in Q1 2022.

STRATEGIC REPORT (continued)

Climate Change (continued)

Governance

Given the strategic importance in managing the impacts of climate change, our governance structure provides clear oversight and ownership of the sustainability strategy and management of climate-related risk.

Governance for climate-related risk has been embedded into the existing governance structure and is complementary to the governance of Lloyds Banking Group's sustainability strategy. Two new committees have been formed during 2021:- The Insurance Sustainability Committee (a committee of the Board of Directors) and the Responsible Business Executive Committee.

Risk Management

The Company has a well-established and robust risk management framework (RMF) used to identify, measure, monitor, manage and report risks. Climate risk is managed in line with this framework and has been integrated by:

- Embedding new, or developing existing, processes for the identification and management of climate-related risk;
- Adding Climate Risk to the Lloyds Banking Group Enterprise Risk Management (ERM) Framework as a Primary Risk;
- Reflecting the impact of Climate Risk as a risk driver on all other risks within the ERM Framework and;
- Creating a Climate Risk Policy that provides an overarching framework and principles and requirements for the management of climate risks.

Strategy

Scottish Widows position as a large investor presents an opportunity to participate in and influence the transition for the long-term benefit of customers and society. Scottish Widows has set goals to target a 50 per cent reduction in the carbon intensity (across the investment portfolio of customer and shareholder funds) by 2030 on a path to 'net zero' by 2050. Further detail can be found in the Climate Action Plan due to be published in February 2022. This strategy applies equally to the funds managed by the Company.

Climate related scenario analysis is an evolving area that is important to the business and will be used to produce insightful outputs that aids the understanding of Climate Risk and supports decision making.

Metrics & Targets

There has been a focus on expanding climate-related metrics during 2021, not just for disclosures but also for internal risk management. This includes the construction of value adding risk appetite statements for regular reporting to the Scottish Widows Group Board and internal metrics for monitoring progress of the net zero transition.

The portfolio's "carbon footprint" is the principal metric for measuring financed emissions and monitoring progress toward the 2030 and 2050 net zero targets. The footprint is the total tonnes of carbon dioxide equivalents (CO_2e) "owned" by the portfolio and scaled by £million invested.

Measurement initially includes the Scope 1 and 2 (i.e. operational) emissions of investee companies. Scope 3 (i.e. supply chain) emissions are not yet included in the baseline or progress monitoring due to issues of data quality and coverage.

Key performance indicators

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

Funds under management

FUM managed by the Company on behalf of customers was £47.1 billion (2020: £46.3 billion) at the balance sheet date. The majority of the £0.8 billion increase was a result of positive market movements, as markets start to recover from the pandemic, offset by net customer outflows. The average FUM balance over the year was £46.9 billion (2020: £45.7 billion).

Revenue from annual management charges (charged as a percentage of customer funds under management) was £78.9 million (2020: £89.0 million - restated).

Capital Resources

The Directors believe that the Company currently has adequate capital resources, £140.3 million (2020: £129.8 million); and will continue to do so in the foreseeable future. Further information on the capital position of the Company is given in note 22 c) 4).

Liquidity

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

STRATEGIC REPORT (continued)

Other Sources

The development, performance and position of the Insurance and Wealth Division of Lloyds Banking Group are presented within Lloyds Banking Group's Annual Report, which does not form part of this report and will be issued in Q1 2022.

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

Review of the business

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

Asset Management Market Study

As required by the FCA the Company has carried out an annual Assessment of Value for all funds and share classes in each Investment Company with Variable Capital (ICVC), to consider overall value delivered to customers. To avoid duplication and for ease of communication the Company has published a separate Assessment of Value report explaining to customers, what the Company has found and what the Company is doing in a combined statement across all of the funds managed by the Company. The Assessment of Value report is available for customers to read on the Scottish Widows website and a brief summary of changes are referenced in the Section 172(1) Statement - Delivering Value for Customers on page 9. The reduction in customer charges across the fund range will reduce annual revenue for the Company.

Fund Mergers and Closures

The Assessment of Value report drew attention to sub-funds within the Company's product range that were considered either too small in scale and unlikely to remain a viable size over the longer term and/or have high charges that will likely impact net performance over time. As a result six sub-funds were identified to undergo either a fund merger or closure. These were completed in June 2021.

Outsourcing of long-standing customer administration platform

We continue with our planned migration to Diligenta's BaNCS platform which will run throughout 2022. The existing RUFUS systems will be upgraded to safeguard customer service levels ahead of the migration to the BaNCS platform.

Deceased Client Policies Remediation

During the year we commenced a rectification to the estates of deceased customers with assets held on the unclaimed assets register. The subsequent total value to be repatriated to SWUTM customers' estates was £5.6m, with interest payments being made of £1.9 million. There is a provision held at the year end amounting to £0.8m (see note 18), relating to interest amounts still to be remediated.

Outlook

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

Principal risks and uncertainties

Details of key risks are set out in note 22. This includes Financial Risks plus those Non-Financial Risks that are reported as material or severe to the Board according to the risk framework. Risks and uncertainties to our strategic plan, both positive and negative, are considered by product through the planning process. Further details on the key risks can be found in note 22.

Principal Risk	Note reference	Description
Market risk	22(c)(1)	Market risk is the risk that the Company's capital or earnings profile is affected by adverse market rates. Of particular importance to the Company are equity risk and interest rate risk. External rates are outwith the Company's control, so mitigation is via having sufficient financial reserves to cover reduced earnings.
Credit risk	22(c)(2)	Credit risk is the risk that parties with whom we have contracted, fail to meet their financial obligations. The Company is subject to credit risk through a variety of counterparties through invested assets including units held in Managers Box, cash in liquidity funds, bank accounts and derivatives. Credit risk is mitigated via the Credit Risk Policy framework, which ensures exposures are appropriately monitored and action taken where necessary.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Principal Risk	Note reference	Description
Liquidity risk	22(c)(3)	Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due or can only secure them at excessive cost. The Company is exposed to liquidity risk from payments to shareholders and non-shareholder related activity, such as investment purchases and the payment of shareholder expenses. Liquidity risk is mitigated by applying the Liquidity Risk Policy, which includes controls to maintain liquidity at necessary levels.
Capital risk	22(c)(4)	Capital risk is the risk that the Company has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Company. Capital refers to the regulatory capital for the Company. The business of the Company is regulated by the FCA. The FCA specifies the minimum amount of capital that must be held by the Company in addition to its liabilities. The minimum required capital must be maintained at all times throughout the year. These capital requirements and the capital available to meet them are regularly estimated in order to ensure that capital maintenance requirements are being met. Capital risk is managed via the Capital Risk Policy, which includes tools and governance to monitor capital requirements and assign capital accordingly.
Operational risk	22(d)	Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This is mitigated by the application of the Operational Risk Policy and Framework.
Conduct risk	22(d)	Conduct risk is defined as the risk of customer detriment across the customer lifecycle including: failures in product management, distribution and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss. Principal mitigants to conduct risk are the application of the Conduct Policy and the monitoring of Conduct Risk Appetite Metrics.
Data risk	22(d)	Data risk is defined as the risk of failing to effectively govern, manage and control data (including data processed by third party suppliers), leading to unethical decisions, poor customer outcomes, loss of value and mistrust. This risk is being mitigated by the implementation of the Data and Analytics strategy, designed to improve understanding of data issues and drive adoption of improved procedures and controls.
People risk	22(d)	People risk is the risk that the Company fails to provide an appropriate colleague and customer-centric culture, supported by robust reward and wellbeing policies and processes; effective leadership to manage colleague resources; effective talent and succession management; and robust control to ensure all colleague-related requirements are met. Key mitigants for people risk are a focus on leadership and colleague engagement, coupled with the implementation of the culture and inclusivity strategy.
Operational resilience risk	22(d)	Operational resilience risk is defined as the risk that the Company fails to design resilience into business operations, underlying infrastructure and controls (people, process, technology) so that it is able to withstand external or internal events which could impact the continuation of operations and fails to respond in a way which meets customer and stakeholder expectations and needs when an incident occurs. It is mitigated via the application of the Operational Resilience Policy and Framework.
Economic risk	22(e)	The Company faces economic risk arising from the impact of Covid-19 and resulting political uncertainty. As the impacts to this risk are financial, they are mitigated in the same fashion as Market, Liquidity and Credit risks above.
Climate risk	22(f)	The Company is exposed to climate risk through transition and physical risks. The Company considers the impact of climate risk as a risk driver on other risks types, such as credit risk, market risk, and operational risk. Climate risk is mitigated via the application of the Climate Risk Policy, and actions taken to address other risk types.

STRATEGIC REPORT (continued)

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

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

- The likely consequences of any decision in the long term;
- The interests of the Company’s employees;
- The need to foster business relationships with the Company’s suppliers, customers and others;
- The impact of the Company’s operations on the community and the environment;
- Maintaining a reputation for high standards of business conduct for the Company; and
- The need to act fairly as between the Company’s shareholders.

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 follows many of the processes and practices of Lloyds Banking Group, which are further referred to in this Statement where relevant.

The Board is collectively responsible for the long-term success of the Company. Understanding the views and interests of our key stakeholders (this includes customers, shareholders, communities and environment, regulators, and suppliers), is central to the Company’s strategy, crucial to the Company’s success, and informs key aspects of Board decision making as set out in this Statement. Stakeholder engagement is embedded in all aspects of the Board’s decision making and can be seen in the range of activities across key stakeholder groups.

How the Board has discharged its Section 172 duties

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

Stakeholder engagement is embedded in the Board’s delegation to the Company’s Chief Executive for the delivery of the Company’s strategy and overall management of the Company’s business within its defined risk appetite. Examples of related actions taken during the year are included within the Report. The Chief Executive discharges his responsibility for the day-to-day management of the Company’s business through delegating key areas of his authority to management and with the assistance of the Company’s Management Committee this enables him to make informed decisions about the operations of the Company’s business.

The Chief Executive and management provide the Board with details of material stakeholder interaction and feedback, through quarterly business updates. Stakeholder interests are also identified by management in the wider proposals put to the Board. During 2021, interaction with stakeholders was adapted in response to the UK Government’s ongoing provisions on the Covid-19 global pandemic and has been undertaken virtually where necessary.

Further details of how the Board considers each of the specific matters set out in Section 172 along with specific examples of how these considerations have influenced decisions taken by the Board are set out in pages 8 to 12 which serves as our Section 172(1) Statement. Given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

Customers

The Board’s understanding of customer’s needs is vital in setting and achieving the Company’s goals. Customer needs and a customer centric approach remain therefore a key consideration in Board decisions. The Company serves a wide variety of different customers and aims to meet their diverse needs and requirements in a timely and efficient way through its range of funds, and the quality of service provided.

Customer trust is always a priority for the Board as is the Company’s adherence to its regulatory duties as an Authorised Fund Manager to ensure that all customers are treated fairly, pricing is fair, correct, and transparent and undue costs charged to customers are prevented.

Quarterly reporting from management allows the Board to monitor performance in delivering on its customer-related objectives and the Board reviews customer complaints to understand areas where improvements can be made. Management regularly reviews the customer experience against key customer service metrics, from the point at which a customer request is received through to the point at which that request is completed. Direct feedback is sought from customers on the level of service received when they interact with the Company about their investment. Every opportunity is taken by the Board to consider customer feedback and related management information, including as part of the Board’s strategic decision-making process.

STRATEGIC REPORT (continued)

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

Covid-19 Response

Many of our customers value being able to get in touch with customer services representatives over the phone and during the Covid-19 pandemic this became even more important to customers. 2020 had been a challenging year with a sustained increase in telephone calls from customers concerned about stock market volatility and the value of investments. This was alongside a significant transition to remote working for employees providing services to the Company, given the scale of the Company's operations. Capacity for call handling and servicing customer instructions was stretched and this resulted in increased complaint volumes. Since then, resources have been increased and process improvements have been made to recover service standards in 2021. Management continues to work closely with the Company's customer service partner to ensure delivery of a consistently high standard of service expected for customers invested in the Company's funds.

2020 had also been a challenging year for financial markets as the impact of the Covid-19 pandemic meant extraordinary swings in the value of investments. Due to this short-term market volatility, underlying fund performance was a contributing factor in the year-on-year increase in complaints reviewed by the Board in 2021. The Board continues to take a long-term view in its approach to investment management in partnership with the Company's principle fund manager, Schroder Investment Management Limited (Schroders) and oversee management's engagement with Schroders to improve fund performance potential and returns for customers.

Delivering Value for Customers

The Board undertakes an annual review of the Company's funds and share classes to assess overall value delivered to customers, consistent with the expectations set out in the rules of the FCA's Asset Management Market Study Policy Statement (PS18/8). The Board have concluded that the majority of the Company's funds are providing good value for customers. However, the review identified additional areas where the Board might be able to deliver even further on its commitment to do the right thing for customers. Appropriate action for those funds not meeting the Board's expectations has been taken, specifically in the areas of fund charges, performance, and service. Further information can be found in the Company's Assessment of Value Report published on the Scottish Widows website.

The comprehensive review of fund charges undertaken in 2020 to deliver a more consistent and transparent approach to charges was implemented in June 2021, meaning more than 300,000 customers now pay lower charges on their investments in SWUTM funds. On average, charges have been reduced by one third for customers invested in our funds. In addition, a fund specific change was implemented to remove an investment advisory fee on four of the Company's funds.

Having implemented this new, simpler charging structure for customers across the Company's funds, the Board will continue to control the Company's operating costs and monitor charges across fund range to ensure these remain competitive for the type of investment provided.

During 2021, action was also taken to close two relatively small funds because their small size meant that costs were disproportionately increasing customer charges. In addition, four multi-manager funds have been merged with suitable funds with a similar risk profile in order to simplify their operation and reduce charges for customers.

Following the outcome of analysis undertaken by management to identify further fund rationalisation opportunities specifically amongst those funds that were broadly similar and/or smaller in scale, the Board concluded there were no fund value concerns which required additional management action during the year.

Following the annual review in 2021, the Board concluded there was further opportunity to improve the quality of service being provided directly to customers to meet the high standards it had set for the Company. Although all other measures of quality of investment services were strong, the Board believes the overriding measure is customer service and this was below expectations. The impact of Covid-19 had been a significant contributor as previously outlined. The improvement plan put in place during 2020 and the actions already taken to increase the resource in the telephone call centre, improve skills and knowledge of front-line employees to support customers enquiring about their investments will allow the Company to continue to further improve the service delivered with faster response times.

Fund Performance

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

Monitoring of overall fund investment strategy and performance is a key matter reserved to the Board. The Board recognises the importance of understanding its performance in supporting customers, including how the Company performs in this regard against its fund mandates. Quarterly fund performance updates from management includes assessments of returns relative to an appropriate market or sector index (benchmark) over a performance period to give an indication of how well funds are meeting their performance objectives, and how funds have performed against appropriate peer group and Investment Association sectors. This assists the Board make judgements on whether or not the investment objectives are being met and value is being delivered to customers.

STRATEGIC REPORT (continued)

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

Fund Performance (continued)

Management continues to work closely with investment managers to improve performance across the Company's fund range. Schroders are tasked with managing fund assets to optimise performance and the reductions in charges detailed earlier will improve returns for customers in future years. The exceptional market conditions due to the global Covid-19 pandemic has meant some investment styles were out of favour. Our equity funds which have a value based investment strategy had fallen short of expected returns. This was consistent with similarly managed funds from other providers. The Board initiated a detailed review of the current investment style used for many of the Company's equity funds and the equity component of multi-asset funds in 2020 and continued to closely monitor performance of these funds during 2021. The Board still believes the long-term outlook means this current investment style is still appropriate for customers' investments.

Technology Transformation

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

As part of the Company's drive towards continuously improving the service provided to customers, the appointment of Diligenta, a leading provider of business process services will, over time, offer customers an enhanced customer experience with new ways of managing their investments online and allowing them to access the information they need quickly and easily. During the year the Board undertook a detailed review of the digital benefits in plan for development following the proposed migration of the Company's funds to Diligenta's BaNCs platform which will include increased online 'self -servicing' capabilities, digital banking capabilities, process simplification, automation and improved financial and operations controls.

Helping Britain Recover

The Board ensures it continues to participate and play an appropriate role in all Lloyds Banking Group related initiatives. The lasting social and economic effects on the UK as the impacts from the Covid-19 pandemic grows have been a focus of Lloyds Banking Group and its Helping Britain Recover Plan, building on its Helping Britain Prosper ambitions. The focus of Lloyds Banking Group's purpose will evolve in response to the current environment and changing customer needs and expectations. Helping rebuild UK household's financial health and wellbeing and accelerating the transition to a low-carbon economy are key commitments of the Helping Britain Recover Plan.

Lloyds Banking Group continues to invest significantly in the development of its Insurance and Wealth business, which the Company forms part of, with a focus on supporting customers' long-term financial resilience and ambition to deliver good outcomes for customers in a sustainable way. Further information on Lloyds Banking Group's initiatives can be found in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2021, available on the Lloyds Banking Group website.

Shareholders

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.

The views and interests of the Company's shareholders are key considerations when the Board determines the level of dividend payments (further details of which can be found on page 13 of the Strategic Report) as well as when approving the Company's business strategy and long-term objectives.

Impact on the Community and Environment

Lloyds Banking Group is one of the largest financial services providers in the UK whose goals are to be a trusted, sustainable, and responsible business. The Responsible Business Committee of the Board of Lloyds Banking Group is responsible for overseeing its performance as a Responsible Business and has given much focus to overseeing the development of the Lloyds Banking Group's Helping Britain Recover Plan.

In September, the Board of the Company approved the establishment of the Insurance Sustainability Committee with the majority of members being independent non-executive directors, and also including the Chief Executive. The primary purpose of this Committee is to review and recommend to the Board (and Scottish Widows Group Board) the Environmental, Social and Governance (ESG) Strategy of the Company (and wider Insurance business) and its alignment to Lloyds Banking Group's overarching purpose of Helping Britain Recover and Prosper in the future. The Committee has also been responsible for overseeing the publication of the Scottish Widows Group Task Force on Climate Related Financial Disclosures (TCFD) Report and related regulatory expectations. The TCFD Report will be published on the Scottish Widows website in Q1 2022.

STRATEGIC REPORT (continued)

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

Impact on the Community and Environment (continued)

The Board is engaged on a regular basis on the Insurance business and Company's sustainability agenda receiving regular briefings to build understanding and capability alongside Director's attendance at relevant external briefings. In July, the Board undertook climate risk training supported by the Cambridge Institute of Sustainability Leadership and will continue to identify opportunities to evolve its ESG understanding and capabilities.

Climate Risk

Approval of proposed external commitments in relation to climate risk that materially impact the Company or the Company's funds are matters reserved to the Board. The Insurance Sustainability Committee on behalf of the Board will consider the Company's management of climate risk and relevant public disclosures, providing oversight and challenge on those activities which impact on the Company's reputation as a responsible business.

Responsible Stewardship

The Board monitors the Company's overall fund investment strategy and performance giving due consideration to Scottish Widows' Responsible Investment and Stewardship Framework. This is a principle-based framework which guides the Company's decisions on the investments made, the fund managers selected, research into funds, and how the Company engages with companies it invests in. Research conducted by Scottish Widows to find out people's views on a wide range of sustainable investment themes, has informed this Framework which is available on the Scottish Widows website.

Environmental Ambitions

Lloyds Banking Group's Insurance and Wealth business, which the Company forms part of has set ambitious targets in relation to ESG and climate change, published under the Scottish Widows brand. It aims to increase investment in companies adapting their businesses to be less carbon-intensive and developing climate solutions by 2025; achieve a 50 per cent reduction in the carbon emissions of its overall funds under management by 2030; and get to net zero emissions by 2050. The Board are pleased to note that management believes that the ESG commitments Scottish Widows has made will not negatively affect investment returns for the Company's customers and that this continues to be monitored closely.

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

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

Regulators

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

Regulatory Agenda

Individual Directors have had in the ordinary course of business continuing discussions with the FCA on several aspects of the regulatory agenda including but not limited to customer complaints, operational resilience and the FCA's guiding principles on the design, delivery, and disclosure of ESG and sustainable investment funds. The Board, in turn receives regular quarterly updates on this and wider Lloyds Banking Group interaction, which included during the year an in-depth session on the Company's operational resilience strategy and cyber security. This provided a view of key areas of FCA focus, alongside progress made on addressing FCA actions.

During the year the Board received an update on the Company's Client Money management arrangements including an annual attestation required to be made by management to the Board on compliance with the FCA's Client Assets Sourcebook (CASS) Resolution Pack rules.

Suppliers

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

The advantage of being part of a larger group means there are robust processes in place to monitor and review costs with third parties who provide services to the Company's funds. The outsourced business model allows the Company to negotiate competitive fees and commercial terms with its service suppliers to control costs for all our customers.

STRATEGIC REPORT (continued)

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

Supplier Experience

Recognising the role of suppliers in the Company's day-to-day operations, and its future ambitions, the Board undertakes regular reviews of its key suppliers, this includes asset managers Schroders and outsourced service providers Diligenta and State Street Bank & Trust and takes into consideration supplier feedback where applicable on the Company's processes for potential improvement. The Board is satisfied that the level of service received during 2021 from external suppliers has been good when taking into account the impact of Covid-19 on investment markets.

Since the transfer of the management of the Company's active funds to Schroders in 2019, management continues to work closely with Schroders to optimise the operation of the funds in relation to the achievement of the investment objectives. The Board's annual review of Schroders included discussion on the long-term potential of Quantitative Equity (QE) fund performance, Schroders' ongoing enhancement of its QE management approach and the Board's high expectations with regards to the quality of Schroder's market commentary on fund performance for customers.

The Board's annual review of outsourced service provider Diligenta focused on key dependencies for migration of the Company's funds to the BaNCS platform, the importance of clarity of steps to be taken to ensure a compliant BaNCS platform that serves customers, noting the complexity of the migration, and the build of digital 'self-serve' capabilities post migration for customers. Further detail on the latter is covered in the earlier section on Technology Transformation.

Supplier Framework

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

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

Modern Slavery

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

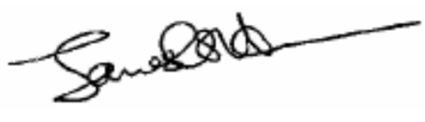
On a day-to-day basis, management of and engagement on modern slavery and human rights is guided by a cross-divisional working group led by the Responsible Business team, which meets regularly to assess the embedding of human rights within the Lloyds Banking Group's operations.

Lloyds Banking Group, and the Company, continues to have a zero-tolerance attitude towards modern slavery in its supply chains. Lloyds Banking Group's Modern Slavery & Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies, including the Company, which is required to publish an annual statement, and sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains. On an annual basis, the Insurance Sustainability Committee oversees these statements ahead of Board approval.

Maintaining a Reputation for High Standards of Business Conduct

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

On behalf of the Board of Directors



J C S Hillman

Director

27 January 2022

DIRECTORS' REPORT

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

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

Results and dividend

The result of the Company for the year ended 31 December 2021 is a profit after tax of £5.8 million (2020 : £19.5 million - restated). The result is reflective of reduced income from annual management charges (AMC) as a result of changes to the rates in June 2021, and an increase in administrative expenses compared to the prior year.

There was a £10.1 million (11.4 per cent) fall in revenue from AMC's during the year which is largely driven by net retail outflows, and the reduction of the AMC rates (2020 : £44.2 million decrease).

Total equity for the Company increased by £5.8 million (2020 : £176.6 million decrease), reflecting the current year's profit retained in cash and cash equivalents.

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

No dividends were paid during the year (2020: £194.0 million). The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2021 (2020: £nil).

Directors

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

G M Stewart	(resigned 14 January 2021)
J R A Bond	(resigned 14 May 2021)
C J Thornton	(appointed 10 December 2021)

Particulars of the Directors' emoluments are set out in note 23.

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 the Directors who join the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the Directors period of office. The deed indemnifies the Directors to the maximum extent permitted by law.

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

Disclosure of information to auditors

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

Future developments

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

Financial risk management

Disclosures relating to financial risk management are included in note 22 of the accounts and are therefore incorporated into this report by reference.

Engagement with suppliers, customers and others

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

DIRECTORS' REPORT (CONTINUED)

Independent auditor

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

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

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

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

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

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

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

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

– the Strategic Report on pages 4 to 12, and the Directors' Report on pages 13 to 14 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board of Directors

J C S Hillman

Director

27 January 2022

Independent auditor report to the members of Scottish Widows Unit Trust Managers Limited

Report on the audit of the financial statements

Opinion

In our opinion, Scottish Widows Unit Trust Managers Limited's financial statements:

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

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 26 (excluding information marked as unaudited in note 22).

The financial reporting framework that has been applied in their preparation is applicable law, and IFRSs as issued by the IASB.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

Independent auditor report to the members of Scottish Widows Unit Trust Managers Limited (continued)

Responsibilities of directors (continued)

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

As a result of performing the above, we identified the greatest potential for fraud in revenue recognition in relation to the company's annual management charge ("AMC"). This represents the largest revenue stream and our fraud risk has been pinpointed to the use of correct AMC rates in calculating the AMC. We have obtained an understanding of the key controls within the reporting process for this account balance and subsequently tested the operating effectiveness of the key controls identified.We have engaged our IT specialists to build an analytical model to recalculate this balance, recalculating the AMC on a daily basis using specific fund AMC fee rates and daily net asset values ("NAVs"). Further to this, we have performed detailed testing over the key inputs to this recalculation, specifically the AMC fee rates and NAVs used to assess their accuracy and completeness.

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

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

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

Independent auditor report to the members of Scottish Widows Unit Trust Managers Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

T. Noble

Tom Noble (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

27 January 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	Restated* 2020 £'000
Revenue*	3	91,140	104,765
Distribution and selling costs	4	(9,229)	(17,717)
Gross profit		**81,911**	**87,048**
Net loss on financial assets at fair value through profit or loss	5	(969)	(170)
Administrative expenses	6	(72,456)	(60,070)
Finance costs	8	(1,278)	(3,259)
Profit before tax*		**7,208**	**23,549**
Taxation charge*	9	(1,442)	(4,006)
Profit and total comprehensive income for the year		**5,766**	**19,543**

*See note 26 for details regarding the prior year restatement.

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

The notes set out on pages 22 to 44 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2021

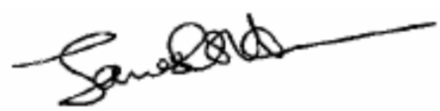
	Note	2021 £'000	Restated* 2020 £'000
ASSETS			
Deferred origination costs	10	4,131	7,003
Deferred tax assets	11	138	129
Financial assets:			
Financial assets at fair value through profit or loss	12	1,616	2,584
Trade and other receivables*	13	60,492	65,705
Cash and Cash equivalents	14	142,114	121,394
Total Assets		208,491	196,815
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	15	50	50
Retained profits*		144,507	138,741
Total equity		144,557	138,791
Liabilities			
Deferred income	16	2,716	4,867
Current tax liabilities	17	2,039	5,767
Provisions for other liabilities and charges	18	824	490
Financial liabilities:			
Trade and other payables	19	58,355	46,900
Total liabilities		63,934	58,024
Total equity and liabilities		208,491	196,815

*See note 26 for details regarding the prior year restatement.

Retained earnings of the Company includes profit for the year of £5.8 million (2020: £19.5 million).

The notes set out on pages 22 to 44 are an integral part of these financial statements.

The financial statements on pages 18 to 44 were approved by the Board on 27 January 2022.



J C S Hillman, Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	Restated* 2020 £'000
Cash flows from operating activities			
Profit before tax*		7,208	23,549
Adjusted for:			
Finance costs	8	1,278	3,259
Net decrease in operating assets and liabilities*	20	17,970	942
Decrease in deferred income	16	(2,151)	(2,480)
Decrease in deferred origination costs	10	2,872	3,123
Taxation paid		(5,179)	(3,303)
Net cash flows generated from operating activities		21,998	25,090
Cash flows from financing activities			
Dividends paid	21	—	(194,000)
Finance costs	8	(1,278)	(3,259)
Net cash flows used in financing activities		(1,278)	(197,259)
Net increase / (decrease) in cash and cash equivalents		20,720	(172,169)
Cash and cash equivalents at the beginning of the year		121,394	293,562
Net cash and cash equivalents at the end of the year	14	142,114	121,393

*See note 26 for details regarding the prior year restatement.

The notes set out on pages 22 to 44 are an integral part of these financial statements.

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

	Note	Share capital £'000	Retained profits £'000	Total equity £'000
Balance as at 1 January 2020		50	313,198	313,248
Profit and total comprehensive income for the year as previously reported		—	17,381	17,381
Prior year adjustment	26	—	2,162	2,162
Dividends paid	21	—	(194,000)	(194,000)
Balance as at 31 December 2020 and 1 January 2021 restated*		50	138,741	138,791
Profit and total comprehensive income for the year		—	5,766	5,766
Balance as at 31 December 2021		50	144,507	144,557

*See note 26 for details regarding the prior year restatement.

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 22.

The notes set out on pages 22 to 44 are an integral part of these financial statements.

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

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

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

(3) under the historical cost convention, as modified by the revaluation of 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.

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in "GBP" (£), which is the Company's presentation currency. All transactions are in GBP and the Company does not transact in other currencies.

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

Standards and interpretations effective in 2021

The Company has adopted the following amendments to IFRS as at 1 January 2021. Adoption has had no significant impact on the financial position of the Company.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Interest Rate Benchmark Reform – Phase 2 is the second phase of the IASB's IBOR Reform, and addresses issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

Future accounting developments

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

(b) Revenue recognition

Revenue

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

- Net fee income from the sale of shares in OEIC sub funds and other similar fees, are recognised as revenue in the statement of comprehensive income when the Company's performance obligations have been met. These are recognised over a period of time, and settled on a daily basis;
- Net fee remuneration from the management of shares in OEIC sub funds based on fixed rates per shareclass, are recognised as revenue in the statement of comprehensive income when the Company's performance obligations have been met, are recognised over a period of time, and are settled monthly;
- Income received for services to be provided in future periods is deferred and recognised as revenue in the statement of comprehensive income as the service is provided. The Company recognises them on a straight-line basis over the remaining lives of the contracts, settled quarterly. See note 1(n);
- Investment Manager Fee rebates from related parties investing in the OEICs managed by the Company, are recognised as revenue in the statement of comprehensive income when the Company's performance obligations have been met. These are recognised over a period of time, settled monthly; and
- Other income, which includes net registration fees and other similar fees, are recognised as revenue in the statement of comprehensive income when the Company's performance obligations have been met, are recognised over a period of time, and are settled daily or as received.

The Company incurs investment management fees in the course of its investment management services as described in accounting policy (c). Where these fees are incurred on OEICs invested in by a related party, the Company recharges a proportion of the fee to that related party as compensation for the investment management service provided. The amount of the fee recharged is calculated as the percentage of the OEIC investment held by the related party.

1. Accounting policies (continued)

(b) Revenue recognition (continued)

Fee income, including registration fees and initial charges, and remuneration are recognised as revenue in the statement of comprehensive income when the Company's performance obligations have been met, which is the period in which the services are provided. If the fees are for services to be provided in future years, these are deferred and recognised in the statement of comprehensive income as revenue as the service is provided.

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

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

Investment income

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

(c) Expense recognition

Distribution and selling costs

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

Administrative expenses

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

Finance costs

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

(d) Deferred origination costs

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

(e) Financial assets and financial liabilities

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

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

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

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

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

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

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

1. Accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

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.

(f) Fair value methodology

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

(i) Level 1

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

(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

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

(iii) Level 3

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

Further analysis of the Company's instruments held at fair value is set out at note 22.

(g) Trade and other receivables

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

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

(h) Cash and cash equivalents

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

1. Accounting policies (continued)

(h) Cash and cash equivalents (continued)

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.

(i) Impairment

Financial assets

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

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

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

For financial instruments that are considered to have low credit risk, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective, such as external bank accounts.

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

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

Non-financial assets

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

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

(j) Taxes

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

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

1. Accounting policies (continued)

(j) Taxes (continued)

Current tax

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

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

Deferred tax

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

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

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

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

(k) Share capital

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

Dividends payable

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

(l) Trade and other payables

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

(m) Provisions for other liabilities and charges

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

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

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

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

1. Accounting policies (continued)

(n) Deferred income

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

These services comprise an indeterminate number of acts over the estimated lives of the individual contracts and, therefore, the Company defers these fees and recognises them on a straight-line basis over the remaining lives of the contracts. A finite life of 12 years has been applied based upon the contracts' expected run-off period.

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

(o) Financial assets at fair value through profit or loss

Classification

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

Recognition

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

Measurement

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

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

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

2. Critical accounting judgements or 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.

(a) Estimates

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

Deferred origination costs

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

Deferred income

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

2. Critical accounting judgements or key sources of estimation uncertainty (continued)

(b) Judgements

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

Deferred origination costs

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

Deferred income

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

3. Revenue

		Restated*
	2021	**2020**
	£'000	**£'000**
Annual management charges	78,898	89,034
Income from unit dealing	2,185	2,438
Decrease in deferred income liability	2,151	2,480
Registration fees and other income*	7,873	10,311
Interest and dividend income on financial assets at fair value through profit or loss	33	503
Total	**91,140**	**104,766**

* Registration fees and other income have been restated by £2.7 million as a result of a prior year restatement related to intercompany settlements. More details are included in note 26.

4. Distribution and selling costs

	2021	**2020**
	£'000	**£'000**
Commissions payable and other selling costs	6,357	14,594
Decrease in deferred origination costs	2,872	3,123
Total	**9,229**	**17,717**

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

	2021	**2020**
	£'000	**£'000**
Net loss on financial assets at fair value through profit or loss	969	170
Total	**969**	**170**

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

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

6. Administrative expenses

	2021 £'000	2020 £'000
Recharges from other group companies	48,274	35,157
Investment expenses	20,255	18,810
Custodian fees	2,420	4,671
Trustee fees	173	67
Other fees (including provisions for the year)	1,334	1,365
Total	**72,456**	**60,070**

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

The Company had no direct employees during the year (2020: nil). The employee costs, including pension costs are included in the recharges from other group companies noted above.

7. Auditor remuneration

	2021 £000	2020 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	41	40
Fees payable to the Company's auditors and their associates for other services:		
Audit-related assurance services	102	91
Total fees payable	**143**	**131**

Audit fees for 2020 and 2021 were borne by another Lloyds Banking Group entity and recharged to the Company.

8. Finance costs

	2021 £'000	2020 £'000
Finance costs	1,278	3,259
Total	**1,278**	**3,259**

9. Taxation charge

(a) Current year tax charge

	2021 £'000	Restated* 2020 £'000
Current tax:		
UK corporation tax	1,351	4,456
Adjustment in respect of prior years	100	(453)
Total current tax	1,451	4,003
Deferred tax:		
Origination and reversal of timing differences	18	18
Impact of deferred tax rate change	(27)	(15)
Deferred tax charge	(9)	3
Tax charge	**1,442**	**4,006**

Corporation Tax is calculated at a rate of 19.00 per cent (2020: 19.00 per cent) of the taxable profit for the year.

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

9. Taxation charge (continued)

(b) Reconciliation of tax charge

	2021 £'000	Restated* 2020 £'000
Profit before tax	7,208	23,549
Tax at 19% (2020: 19%)	1,370	4,474
Effects of:		
Adjustment in respect of prior years	100	(453)
Non-taxable items		
Effect of change in tax rate and related impacts	(27)	(15)
Other	(1)	—
Total	**1,442**	**4,006**

*Taxation charge for the prior year has been restated as a result of the prior restatement of historical rebates paid in error. More details are included in note 26.

Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by 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.

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.

10. Deferred origination costs

	2021 £'000	2020 £'000
At 1 January	7,003	10,126
Amortisation during the year	(2,872)	(3,123)
At 31 December	**4,131**	**7,003**

Of the above total, £1.8 million (2020: £4.1 million) is expected to be recovered more than one year from the reporting date.

11. Deferred tax assets

The movement in the Deferred Tax Asset is as follows:

	2021 £'000	2020 £'000
Brought forward	129	133
Charge for the year	9	(4)
Adjustments in respect of prior years	—	—
Amount charged to equity:		
Other	—	—
Total	**138**	**129**

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

	2021 £'000	2020 £'000
Other temporary differences	9	(4)
Total	**9**	**(4)**

Deferred Tax Asset comprises:

	2021 £'000	2020 £'000
Other temporary differences	138	129
Total	**138**	**129**

12. Financial assets at fair value through profit or loss

	2021 £'000	2020 £'000
OEIC fund holdings	1,616	2,584
Total investments at fair value	**1,616**	**2,584**

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

Interests in unconsolidated structured entities

Included within financial assets at fair value through profit or loss £1.6 million (2020: £2.6 million) and cash and cash equivalents £129.5 million (2020: £110.6 million) in note 14 are investments in unconsolidated structured entities of £131.1 million (2020: £113.2 million) arising from investments in collective investment vehicles.

The investments are carried at fair value and the Company's maximum exposure to loss is equal to the carrying value of the investment. At 31 December 2021, the total net assets of unconsolidated collective investment vehicles in which the Company held a beneficial interest were £53.9 billion (2020: £53.2 billion). During the year the Company has not provided any non-contractual financial or other support to these unconsolidated collective investment vehicles.

The Company sponsors a range of collective investment vehicles where it acts as the decision maker over the investment activities and markets the funds under one of Lloyds Banking Group's brands. The Company earns fees from managing the investments of these funds. The investment management fees that the Company earned from these sponsored unconsolidated collective investment vehicles and limited partnerships, including those in which the Company held no interest at 31 December 2021 was £78.9 million (2020: £89.0 million).

13. Trade and other receivables

	2021 £'000	Restated* 2020 £'000
Trade receivables	27,087	42,773
Amounts due from group undertakings (see note 23)	30,916	22,159
Other receivables	2,552	2,204
IFRS 9 impairment allowance	(63)	(1,431)
Total	**60,492**	**65,705**

*See note 26 for details regarding the prior year restatement.

None of the above balances are interest-bearing (2020: none).

Further information in respect of credit risk in relation to trade and other receivables is given in note 22.

Of the above total, £nil (2020: £nil) is expected to be settled more than one year after the reporting date.

14. Cash and cash equivalents

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

	2021 £'000	2020 £'000
Investments held through liquidity funds	129,504	110,596
Cash at bank	12,610	10,798
Total	**142,114**	**121,394**

Cash and cash equivalents does not include client monies held on deposit of £24.8 million (2020: £36.1 million). These amounts are similarly excluded from current liabilities.

Investments held through liquidity funds are used to optimise returns on excess funds held by the Company. Further information in respect of credit risk in relation to cash and cash equivalents is given in note 22.

15. Share capital

	2021 £'000	2020 £'000
Authorised:		
50,000 ordinary shares of £1 each	50	50
Total	**50**	**50**
Issued and fully paid share capital:		
50,000 (2020: 50,000) ordinary shares of £1 each	50	50
Total	**50**	**50**

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

16. Deferred income

	2021 £'000	2020 £'000
At 1 January	4,867	7,347
Amounts deferred during the year	—	—
Amortisation during the year	(2,151)	(2,480)
At 31 December	**2,716**	**4,867**

Of the above amount, £1.1 million (2020: £2.7 million) is expected to be recovered more than one year from the reporting date.

17. Current tax liabilities

	2021 £'000	2020 £'000
Current tax liabilities	2,039	5,767
Total	**2,039**	**5,767**

18. Provisions for other liabilities and charges

	2021 £'000	2020 £'000
At 1 January	490	549
Amounts provided during the year	1,885	—
Amount utilised in the period	(1,551)	(59)
At 31 December	**824**	**490**

Of the above total, £nil (2020: £nil) is expected to be settled more than one year after the reporting date.

Of the outstanding provision amount, £0.8m relates to remediation due to customers in respect of deceased clients as noted on page 6 of the Strategic Report.

19. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	20,059	18,167
Amounts due to group undertakings (see note 23)	28,376	16,823
Other payables	9,920	11,910
Total	**58,355**	**46,900**

None of the above balances are interest-bearing or secured (2020: none). Further information in respect of liquidity risk in relation to trade and other payables is given in note 22.

20. Net decrease in operating assets and liabilities

	2021 £'000	Restated* 2020 £'000
Net decrease in operating assets		
Trade and other receivables	5,212	36,631
Financial assets at fair value through profit or loss	968	167
Net decrease in operating assets	**6,180**	**36,798**
Net increase / (decrease) in operating liabilities		
Trade and other payables and provisions	11,790	(35,856)
Net increase / (decrease) in operating liabilities	**11,790**	**(35,856)**
Net decrease in operating assets and liabilities	**17,970**	**942**

*See note 26 for details regarding the restatement.

21. Dividends paid

	2021 £'000	2020 £'000
Dividends paid	—	(194,000)
Total	**—**	**(194,000)**

There were no interim dividends paid in respect of 2021 (2020: £194.0 million). The dividend paid in the year amounted to £nil per share (2020: £3,880 per share).

No final dividend is proposed in respect of the year ended 31 December 2021 (2020: £nil).

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

22. Risk management

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

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

(a) Governance framework

Lloyds Banking Group has established a Risk function with responsibility for implementing the Lloyds Banking Group Risk Management Framework (RMF), with appropriate Insurance focus, across the Insurance Group.

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

The RMF for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Group and Company are exposed to, with risks categorised according to an approved Lloyds Banking Group risk language. This covers the principal risks faced by the Group, including the exposures to market, insurance underwriting, model risk, credit, capital, liquidity, regulatory and legal, conduct, people, governance and operational risks. The Group assesses the relative costs and concentrations of each type of risk and material issues are escalated to the appropriate Insurance executive committees and onto the Board if required. The performance of the Group, its continuing ability to write business and the strategic management of the business depend on its ability to manage these risks.

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

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

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

(b) Risk appetite

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

Risk appetite is the amount and type of risk that the Board prefers, accepts or wishes to avoid and is aligned to Insurance and Lloyds Banking Group strategies. The risk appetite statements set limits for exposures to the key risk exposures.

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

(c) Financial risks

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

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

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

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

22. Risk management (continued)

(c) Financial risks (continued)

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

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

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

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

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

1) Market risk

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

As at 31 December 2021

	Fair value hierarchy			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit or loss	1,616	—	—	1,616
Cash and cash equivalents	129,504	—	—	129,504
Total assets	**131,120**	**—**	**—**	**131,120**

As at 31 December 2020

	Fair value hierarchy			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit or loss	2,584	—	—	2,584
Cash and cash equivalents	110,596	—	—	110,596
Total assets	**113,180**	**—**	**—**	**113,180**

In addition to market risk on directly held assets and liabilities, the Company has an exposure to indirect market risk. This arises from the fact that the annual management charges collected and associated costs for the management of the funds fluctuate with the market movements impacting the value of customer funds. For example if the underlying market value of customer funds fell by 10 per cent, profit with regards to investment management services are estimated to fall by £4.9 million (2020: £6.6million) based on year end values. These are classified as indirect market risks.

(i) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. The sensitivity analysis below illustrates how the fair value of future cash flows in respect of interest-bearing financial assets held by customers will fluctuate because of changes in market interest rates at the reporting date.

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

22. Risk management (continued)

(c) Financial risks (continued)

1) Market risk (continued)

(i) Interest rate risk (continued)

	Impact on profit after tax and equity for the year	
	2021	**2020**
	£'000	**£'000**
25 basis points (2021: 25 basis points) increase in yield curves	(485)	(617)
25 basis points (2021: 25 basis points) decrease in yield curves	485	617
50 basis points (2020: 50 basis points) increase in yield curves	(993)	(1,266)
50 basis points (2020: 50 basis points) decrease in yield curves	993	1,266

(ii) Equity risk

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

2) Credit risk

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

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

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

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

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

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

		Restated*
	2021	**2020**
	£'000	**£'000**
Trade and other receivables	60,492	65,705
Cash and cash equivalents	142,114	121,394
Total assets bearing credit risk	**202,606**	**187,099**

*See note 26 for details regarding the restatement.

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

22. Risk management (continued)

(c) Financial risks (continued)

2) Credit risk (continued)

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	Not rated
	£'000	£'000	£'000	£'000	£'000
Stage 1 assets					
Cash and cash equivalents	12,610	—	—	12,610	—
Loans and receivables at amortised cost	60,555	—	—	30,916	29,639
Loss allowance	(63)	—	—	—	(63)
Exposure to credit risk	**73,102**	**—**	**—**	**43,526**	**29,576**
Assets at fair value through profit and loss					
Cash and cash equivalents	129,504	—	—	129,504	—
Total	**202,606**	**—**	**—**	**173,030**	**29,576**

Of the unrated assets; approximately £24.6 million (2020: £21.8 million) relate to payments due from OEICs.

As at 31 December 2020

	Total	AAA	AA	A	Not rated
	£'000	£'000	£'000	£'000	£'000
Stage 1 assets					
Cash and cash equivalents	10,798	—	—	10,798	—
Loans and receivables at amortised cost*	67,136	—	—	22,159	44,977
Loss allowance	(1,431)	—	—	—	(1,431)
Exposure to credit risk	**76,503**	**—**	**—**	**32,957**	**43,546**
Assets at fair value through profit and loss					
Cash and cash equivalents	110,596	—	110,596	—	—
Total	**187,099**	—	**110,596**	**32,957**	**43,546**

*See note 26 for details regarding the restatement.

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

Exposure to credit risk is concentrated across counterparties as follows:

	2021	2020
	Total	Total
	£'000	£'000
Trade and other receivables:		
Amounts due from shareholders	24,584	23,956
Amounts due from brokers	2,503	19,750
Amounts due from group undertakings	30,916	19,491
Other receivables	2,489	(160)
Cash and cash equivalents:		
Amounts due from group undertakings	12,610	10,798
Other cash and cash equivalents	129,504	110,596
Total	**202,606**	**184,431**

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

22. Risk management (continued)

(c) Financial risks (continued)

3) Liquidity risk

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

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

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

As at 31 December 2021		Contractual cash flows (undiscounted)					
Liabilities	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	58,355	—	58,355	—	—	—	—
Total	**58,355**	**—**	**58,355**	**—**	**—**	**—**	**—**

As at 31 December 2020		Contractual cash flows (undiscounted)					
Liabilities	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	46,900	—	46,900	—	—	—	—
Total	**46,900**	**—**	**46,900**	**—**	**—**	**—**	**—**

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

4) Capital risk

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

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

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

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

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

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

The Company's objectives when managing capital are:

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

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

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

22. Risk management (continued)

(c) Financial risks (continued)

4) Capital risk (continued)

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

	2021 £'000	2020 £'000
Regulatory capital held (unaudited)	140,288	129,497
Regulatory capital requirement (unaudited)	21,662	19,834

All minimum regulatory requirements were met during the year.

(d) Non-financial risks (unaudited)

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

Change Risk

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

Delivery of change is managed through the governance framework at an Insurance level as individual projects may impact more than one legal entity.

Change risk is measured against risk appetite that is a combination of leading, quality and delivery indicators across the investment portfolio. These indicators are reported through defined internal governance structures in the form of a monthly execution risk dashboard.

Given the volume and complexity of the change portfolio this has remained a primary risk over the last 12 months.

Conduct Risk

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

The Company monitors and mitigates conduct risk through adherence to the RMF.

The processing and servicing changes introduced in the early stages of Covid-19 have continued, enabling ongoing customer support whilst overcoming social restriction challenges.

Data risk

Data risk is defined as the risk of the Group failing to effectively govern, manage and control its data (including data processed by third party suppliers), leading to unethical decisions, poor customer outcomes, loss of value to the Group and mistrust.

Data risk is present in all aspects of the business where data is processed, both within the Company and by third parties.

Data risk is measured through a series of quantitative and qualitative indicators, covering data governance, data management, data privacy and ethics. Data risks and controls are monitored and governed in line with the RMF.

Governance risk

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

Governance arrangements are assessed against new/proposed legislation, regulation and best practice among peer organisations in order to identify any areas of enhancement required.

The RMF establishes robust arrangements for risk governance, and has been strengthened in response to increased focus and activity on Environmental, Social and Governance (ESG) issues.

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

22. Risk management (continued)

(d) Non-financial risks (continued)

People risk

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

People risk is measured through a series of quantitative and qualitative indicators, aligned to key sources of people risk such as succession, retention, colleague engagement and wellbeing.

The changes enforced on colleagues by the pandemic have continued and a flexible working approach continues to be developed and embedded. Support measures are still in place across the Company, with a focus on colleague wellbeing and resilience.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Company includes the following risk types within operational risk:

- Cyber and information security - The risk of financial loss, disruption or damage to reputation from a malicious attack that impacts the confidentiality and/or integrity of electronic data or the availability of systems, and the risk to the security of information and data.
- External service provision - The failure in the provision of the formally agreed services required so the Company can meet their agreed deliverables.
- Financial crime - The risk of acts intended to bribe, corrupt, launder money, fund terrorist activity or circumvent sanctions intended for personal gain or to cause loss to another party, by customers/clients, suppliers, third parties or colleagues.
- Financial reporting risk - The risk that the Company suffers reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over business or finance processes impacting financial, prudential regulatory, and tax reporting, failure to manage the associated risks of changes in taxation rates, law, corporate ownership or structure and the failure to disclose timely and appropriate information in accordance with regulatory requirements.
- Fraud - The risk of acts of deception or omission intended for personal gain or to cause loss to another party, by customers/clients, third parties or colleagues.
- Internal service provision - The risk associated with the management of internal service arrangements.
- IT systems - The risk of failure in technology governance and the development, delivery and maintenance of effective IT solutions.
- Physical security risk - The risk to the security of people and property (including malicious and non-malicious acts).
- Sourcing - The risk associated with the activity related to the agreement and management of services provided by third parties.

Operational risk is managed through an operational risk framework and operational risk policies. The operational risk framework includes a Risk and Control Self-Assessment (RCSA) process, risk impact likelihood matrix, key risk and control indicators, risk appetite, a robust operational event management and escalation process, scenario analysis and an operational losses process.

The Company maintains a formal approach to operational risk event escalation, whereby material events are identified, captured and escalated. Root causes of events are determined, and action plans put in place to ensure an optimum level of control to keep customers and the business safe, as well as improve efficiency.

Operational resilience risk

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

Operational resilience risk is managed through the frameworks, controls and processes noted for operational risk. It is supported by business continuity plans, playbooks and incident management framework, minimising the operational impact of the pandemic.

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

22. Risk management (continued)

(d) Non-financial risks (continued)

Model risk

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

The RMF provides the foundation for managing and mitigating model risk. The framework provides the basis for the Model Governance Policy, which defines the mandatory requirements for models.

The model owner takes responsibility for ensuring the fitness for purpose of the models and rating systems, supported and challenged by Risk.

Regulatory and legal risk

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

Whilst the Group has a zero-risk appetite for material regulatory breaches or material legal incidents, the Group remains exposed to them, driven by significant ongoing and new legislation and regulation that needs to be interpreted, implemented and embedded into day-to-day operational and business practices.

The Board has established a risk appetite for regulatory and legal risk, supplemented with policies, procedures and key controls to maintain risk appetite. The Board monitors risk appetite through regular management information.

(e) Economic risk

UK economic growth is muted due to impacts from Covid-19 pandemic and political uncertainty. At the beginning of the Coronavirus outbreak the UK experienced significant volatility in market prices, however market liquidity remains relatively strong and so does the ability to trade in size across most asset classes. The Company's exposure to economic risk would be focused on potential reductions in income from management charges, however, this would be offset largely by a decrease in expenses. The Company’s response is:

- The Company has a robust through the cycle credit risk appetite, including individual limit guidelines, specific sector appetite statements and policies, and affordability and indebtedness controls at origination. In addition to on-going focused monitoring, we conduct portfolio deep dives and larger exposure reviews. We have enhanced our use of early warning indicators including sector specific indicators
- Capital and liquidity are reviewed regularly through committees, ensuring compliance with risk appetite and regulatory requirements
- Internal contingency plans recalibrated and regularly reviewed for strategic, operational and reputational impacts.
- Wide array of risks considered in setting strategic plans
- Being expressed as percentage of fund values, charges and expenses have both reduced and the net impact is minimal.

(f) Climate risk

The Group is exposed to climate risk through transition, physical and litigation risks. Transition risk arises from the investments held in companies which may be adversely affected by the transition to net zero or may fail to adapt appropriately, hence impacting asset values. Physical risk is the risk of increased cost or impairment from physical assets and infrastructure being affected by increased weather events such as flood, wind and freeze. Litigation risk may arise from not delivering on public targets and commitments or clearly disclosing the current position on climate.

The Group considers the impact of climate risk as a risk driver on other risk types, such as credit risk, market risk and operational risk, and acknowledges it may materialise over longer time horizons.

Climate risk is managed in line with, and is integrated into, the RMF.

The Task Force on Climate Related Financial Disclosures Report, provides details of climate risk management and is available on the Scottish Widows website.

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

23. Related party transactions

(a) Ultimate parent and shareholding

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

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

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

(b) Transactions and balances with related parties

Transactions with other Lloyds Banking Group companies

The Company acts as an Authorised Corporate Director for 59 authorised OEIC sub-funds (2020: 70).

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

	2021 £'000	2020 £'000
OEIC sub funds		
Aggregate total transactions for the year:		
Creations	5,067,509	4,453,895
Cancellations	8,431,080	8,410,372
Aggregate amounts due to trustee and depositary:		
Creations (payable) and cancellations receivable at the year-end	(14,442)	5,104
Amounts received by the Company		
Gross annual investment management fees	67,218	77,621
Registrar fees	14,723	18,896
Amounts receivable at the year-end:		
Investment management fees	4,814	6,657
Registrars fees	857	1,714
Managers' box		
Managers' box held at year end	1,616	2,584

Transactions between the Company and other Lloyds Banking Group companies

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

	2021			
	Income during period £'000	Expenses during period £'000	Payable at period end £'000	Receivable at period end £'000
Relationship				
Parent	15,009	14,028	18,510	30,744
Other related parties	—	52,952	9,866	173

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

*See note 26 for details regarding the 2020 restatement to amounts receivable from Parent company.

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

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

23. Related party transactions (continued)

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

Transactions between the Company and key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are the Directors.

The Executive Directors consider that they receive no remuneration for their services to the Company. The Non-Executive Directors received short-term employee benefits and remuneration in respect of qualifying services totalling £53,822 (2020 – £65,200). None of the Non-Executive Directors are entitled to receive share options, retirement benefits or amounts under long-term incentive schemes.

24. Contingent liabilities and capital commitments

Given the nature of the business the Company undertakes, it may from time to time receive complaints against it. The Company has procedures in place to assess the veracity of the claims and provision has been made to cover its best estimate of the exposure in respect of these matters which requires significant judgement and subjective assumptions. No provisions have been recorded for other contingencies, as the Company's obligations under them are not probable and estimable.

There were no contracted capital commitments at the balance sheet date (2020: £nil).

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group’s interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2022. If the final determination of the matter by the judicial process is that HMRC’s position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £21.7 million (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Outsourcing of long-standing customer administration platform

The outsourcing contract signed with Diligenta on 25 September 2017 provides for certain future payments which are contingent on contractual milestones being achieved. £7.7 million (2020 - £9.4 million) relating to the share of these future payments may be expensed to the Company as incurred in future periods.

25. Events after the reporting date

There are no events after the reporting date.

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

26. Restatement of comparatives

The comparative information reported has been restated as explained below:

	Restated	Adjustment	Previously Reported
	£'000	**£'000**	**£'000**
Balance sheet as at 31 December 2020			
Equity			
Retained profits	138,741	2,162	136,579
Assets			
Trade and other receivables	65,705	2,668	63,037
Liabilities			
Current tax liabilities	5,767	507	5,260
Statement of comprehensive income at 31 December 2020			
Revenue	104,765	2,668	102,097
Profit before tax	23,549	2,668	20,881
Taxation charge	(4,006)	(506)	(3,500)
Profit and total comprehensive income for the year	19,543	2,162	17,381

Correction of error in accounting for income fee rebates

Amounts due from related parties have been restated to reflect amounts due to the Company from Scottish Widows Limited, as a result of historical fee rebates settled by the Company in error.

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

Closing 2020 trade and other receivables have been adjusted by £2.7 million, relating to the proportion of fee rebates which applies to dates up to the 2020 year end

Closing 2020 current tax liabilities have been adjusted by £0.5 million, relating to the additional tax liability as a result of the increase in trade and other receivables.

The impact of this on the balance sheet at 31 December 2020, and the statement of comprehensive income for 2020 has been shown in the table above.

Net assets have increased by £2.2 million at 31 December 2020 which equates to a £2.7 million increase on trade and other receivables, less an increase of £0.5 million to current tax liabilities.