HBOS Investment Fund Managers Limited

Annual Report and Accounts
2022

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

C M Herd
J C S Hillman
C J Thornton
D L Davis*
S J O'Connor*
G E Schumacher*

* denotes Independent Non-Executive Director

Company Secretary

M Keil

Independent Auditor

Deloitte LLP
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Bristol
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Registered Office

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Company Registration Number

00941082

STRATEGIC REPORT

The Directors present their strategic report on HBOS Investment Fund Managers Limited (the 'Company') for the year ended 31 December 2022.

The Company is a subsidiary of Scottish Widows Group Limited (Scottish Widows) and contributes to the results of the Insurance, Pensions and Investments (IP&I) Division of Lloyds Banking Group.

Principal activities

The principal activity of the Company is that of an Authorised Corporate Director (ACD) of four Open-Ended Investment Companies (OEICs) and the manager of Individual Savings Accounts (ISAs). The Company's funds are not actively marketed but the Company continues to receive increments on existing business.

Result for the Year

The result of the Company for the year ended 31 December 2022 is a profit after tax of £15.0 million (2021 : £11.8 million). The result is reflective of reduced income from annual management charges (AMC) following the changes to AMC rates during the prior year, offset by lower administrative expenses. The reduction in administrative expenses is related to reduced costs in the current year for the planned migration of customers to a new policy administration platform.

There was an £8.8 million (12.2 per cent) fall in revenue from AMCs compared to last year, which was driven by a combination of reduced AMC rates and lower average funds under management (FUM) throughout 2022. FUM levels were impacted by a number of global economic and political factors during the year (2021 : £6.4 million decrease).

Administrative expenses decreased by £9.5 million (2021 : £14.7 million increase). The key driver for the reduction was a £7.1 million decrease in recharges from other group companies in 2022. The reduction in allocated costs was driven by reduced costs associated with progressing the outsourcing of the long-standing customer administration platform, following increased costs during 2021. There has also been a decrease of £0.9 million in investment expenses in the current year, due to lower average FUM compared to 2021.

Total equity for the Company increased by £15.0 million (2021: £38.2 million decrease), as a result of the current year's profit retained in cash equivalents.

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 Risk Financial Forum (CFRF) has published a TCFD aligned report at the parent entity level (Scottish Widows Group).

The latest TCFD report can be found on the Scottish Widows website.

Key performance indicators

The Company is focused on ensuring it maximises capital efficiency and returns for its shareholder and the IP&I 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 £14.7 billion (2021: £17.6 billion) at the balance sheet date. The net decrease of £2.9 billion is primarily a result of negative market movements on underlying investments, caused by global economic and political factors, combined with net customer outflows. The average FUM balance over the year was £15.8 billion (2021: £17.3 billion).

Revenue from AMCs (charged as a percentage of customer funds under management) was £62.8 million (2021: £71.6 million).

Capital Resources

The Directors believe that the Company currently has adequate capital resources, £264.4 million (2021: £249.0 million); and will continue to do so in the foreseeable future. Further information on the capital position of the Company is given in note 23 d).

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 its approved risk appetite.

STRATEGIC REPORT (continued)

Other Sources

The development, performance and position of the IP&I 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 2023.

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.

Outsourcing of long-standing customer administration platform

Diligenta, our strategic partner, have been focussed on completing the build of their Mutual Funds platform in 2022. As a result, the Company's migrations to this new platform are planned for the second half of 2023.

Deceased Client Policies Remediation

During the year we continued a rectification to the estates of deceased customers with assets held on the unclaimed assets register. There is a provision held at the year end amounting to £0.02 million (see note 19), after a provision release in the year of £0.5 million.

Outlook

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

Principal risks and uncertainties

Risks and uncertainties to our strategic plan, both positive and negative, are considered by product through the planning process. The following table describes the principal risks faced by the Company. Further details on the key financial risks can be found in note 23.

Financial risks

Principal Risk	Note reference	Description
Market risk	23(a)	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	23(b)	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.
Liquidity risk	23(c)	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	23(d)	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.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Non-financial risks

Principal Risk	Description
Operational risk	Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This includes risks around cyber and information security, provision of external and internal services, financial crimes, financial reporting risk, fraud, IT systems, and security. Operational risk is managed through an operational risk framework, including a Risk and Control Self-Assessment (RCSA) process, and operational risk policies. The Company maintains a formal approach to operational risk event escalation, whereby material events are identified, captured and escalated. Root causes of events are determined, and action plans put in place to ensure an optimum level of control to keep customers and the business safe, reduce costs, and improve efficiency. This may involve incidents/issue both internally or within our outsourced partners.
Data risk	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. It is present in all aspects of the business where data is processed, both within the company and by third parties. This risk is measured through a series of quantitative and qualitative indicators, covering data governance, data management, records management, data privacy and ethics. Data risks and controls are monitored and governed in line with an embedded risk management framework, which involves identification, measurement, management, monitoring and reporting. The Company is currently migrating to a new operational platform, which will enhance our data robustness.
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. It can come about from the failure to deliver fair outcomes for customers, across the customer lifecycle and throughout their relationship with us, or a knock-on impact from other activities that may have customer impacts, including operational resilience and loss events. The Company has a Customer Policy that is designed to ensure we deliver fair outcomes to our customers and is supported by controls and processes that help us identify and manage conduct risks.
Climate risk	Climate Risk is the risk that the Company experiences losses and /or reputational damage as a result of climate change, either directly or through its customers. These may be realised from physical weather events, the changes required to transition to a low carbon economy, or as a consequence of the responses to managing these changes. This cuts across financial and non-financial aspects and can manifest itself in a number of ways. These include: falling asset values due to the impact of transitioning towards a low emission economy (Transition Risk) leading to lower earnings, failing to meet public commitments to reach Net Zero emissions (Reputational and Legal Risk), impacts of own operations due to extreme weather (Physical Risk) or promoting funds as being “sustainable” without appropriate design or evidence of outcome (Greenwashing Risk). The Company has a Climate Risk policy to facilitate relevant controls.

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

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

In accordance with the Companies Act 2006 (the ‘Act’) the Directors of the Board provide this Statement, describing how they have had regard to the 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.

This Statement also provides examples of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc (Lloyds Banking Group), and as such follows many of the processes and practices of Lloyds Banking Group, which are further referred to in this Statement where relevant.

<u>How the Board has discharged its Section 172 duties</u>

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 enables the Board to provide effective, sound, and entrepreneurial leadership of the Company within Lloyds Banking Group’s strategic guidance and effective controls.

STRATEGIC REPORT (continued)

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

How the Board has discharged its Section 172 duties (continued)

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.

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 6 to 10 which serves as the Directors' Section 172(1) Statement. Given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

Customers

The Board remains committed to understanding and addressing customer needs, which is vital in setting and achieving the Company's goals. The Company serves a wide variety of different customers and aims to meet their diverse needs through its range of funds, and the quality of service provided.

A key priority 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, and challenge management, 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 performance 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.

Customer Duty

During the year, the Board discussed its key role in overseeing the Company's implementation of the Financial Conduct Authority's (FCA) new Consumer Duty principle from 2023. This will strengthen the Company's focus on the delivery of good outcomes for customers, specifically ensure customers receive information they can understand, products and services that meet their needs and offer fair value, and ensure customers receive the support they need.

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). Having delivered the commitments made from the Board's review of fund charges in 2021, our conclusion is that most of our funds are providing value for customers. However, the assessment did highlight some areas where we could improve value and deliver on our commitment to do the right thing by our customers. Appropriate action for those funds not meeting the Board's expectations has been taken to improve outcomes for customers. Further information can be found in the Company's Assessment of Value Report published on the Scottish Widows website.

Fund Performance

The Company's business model of partly outsourcing fund management means asset managers who specialise in specific areas of the market are selected to deliver the investment performance expected by customers within the constraints of the Company's mandates. This approach also enables 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 Schroder Investment Management Limited (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/or 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. Management continues to work closely with investment managers to improve performance across the Company's fund range.

STRATEGIC REPORT (continued)

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

Fund Performance (continued)

Since the transfer of the management of the Company's active funds to Schroders at the end of 2019, there has been a steady improvement in the performance of most funds. 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 financial markets have continued to be volatile as geopolitical tensions as well as rising inflation and interest rates cause concern about slowdown in economic growth. However, the Board continues to take a long-term view in its approach to investment management in partnership with our specialist fund managers. During the year, Schroders attended two quarterly Board meetings as part of the Board's annual review of Schroders' overall performance, and to support a more in-depth discussion on the long-term performance potential of its active fund management strategies to deliver value for customers.

Technology Transformation

The Board has taken steps to make sure the Company continues to build on its responses to customer demand for digitised customer journeys. Whilst digital transformation has remained a key focus in improving the customer experience, the Board acknowledges that many customers still value being able to contact 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.

The delivery of the planned migration of the Company's funds to Diligenta's BaNCs platform remains a high priority. The platform migration will deliver long term benefits including online 'self-servicing' capabilities, digital banking capabilities, process simplification, automation and improved financial and operations controls. The Board continues to be consulted on key decisions and updated on the delivery of commercial milestones including assurance outcomes testing and the completion of technical builds to ensure compliance with the FCA's Client Assets Sourcebook (CASS).

Helping Britain Prosper

The Board continues to participate in initiatives to support Lloyds Banking Group's purpose of Helping Britain prosper. As the largest UK retail and commercial financial service provider, Lloyds Banking Group remains committed to using its presence and scale to create a more sustainable and inclusive future for people and business - shaping finance as a force for good.

Lloyds Banking Group continues to invest significantly in the development of its IP&I business, with the aim of becoming Britain's preferred financial partner for pensions and financial planning, helping to rebuild households' financial health and wellbeing, and meeting more of the Lloyds Banking Group customers' financial needs, increasingly with carbon neutral investments. 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 2022, available on the Lloyds Banking Group website.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group and as such 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 2022, 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 11 of the Strategic Report) as well as when approving the Company's business strategy and long-term objectives.

Impact on the Community and Environment

The Board is supported on environmental matters by its Sustainability Committee with the majority of members being independent non-executive directors. The primary purpose of this Committee is to review and recommend to the Board (and its parent company board, the Scottish Widows Group board) the Environmental, Social and Governance (ESG) Strategy of the Company in alignment with the IP&I business and Lloyds Banking Group's overarching purpose of Helping Britain Prosper in the future. The Committee has also been responsible for overseeing the publication of the Scottish Widows Task Force on Climate Related Financial Disclosures (TCFD) Report and related regulatory expectations on disclosures. The TCFD Report can be found on the Scottish Widows website.

The Chair of the Sustainability Committee reports regularly to the Board on key matters relating to the IP&I business sustainability strategy and activities relevant to the Company. During the year, the Board received updates from the Committee on its engagement with the Company's investment managers on sustainability, in particular on Schroders' Net Zero plans and integration of sustainability into their investment decisions, and how BlackRock Investment Management (UK) Limited (BlackRock) is influencing change through fund innovation, stewardship and investment in "climate technology of the future." A key focus of Board discussions was the importance of investing responsibly and integrating ESG considerations in a way that does not come at the expense of investment returns to customers.

STRATEGIC REPORT (continued)

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

Shareholders (continued)

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 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. The Committee undertakes a bi-annual review of the Scottish Widows' external commitments and monitors external emerging risks across ESG (including greenwashing risk), to identify opportunities for the Company to enhance the controls it has in place to mitigate ESG risks and evolve processes to respond to change required by legal risks and marketing standards.

Responsible Investment & Stewardship

The Board monitors the Company's overall fund investment strategy and performance giving due consideration to the Scottish Widows Responsible Investment and Stewardship Framework. This is a principles-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.

Scottish Widows has embraced responsible investment practices to manage risks and returns in a more effective way in the funds the Company offers customers. The Board is encouraged to see Scottish Widows has been integrating ESG factors across investments. Well-considered exclusions, for example, help protect customers' savings from unrewarded investment risk. In 2022, Scottish Widows had almost doubled its divestment from companies that do not meet its ESG criteria. These responsible investment practices are being phased in across the Company's funds. Further information can be found in the Company's Assessment of Value Report published on the Scottish Widows website.

Scottish Widows also launched its Climate Action Plan - a roadmap of how it aims to achieve its net zero emissions ambition across its investments, which also covers the holdings of the Company. Overall, Scottish Widows has set a Net Zero by 2050 target, a halving portfolio carbon footprint by 2030 target and lays out a target for investing between £20 billion and £25 billion in climate-aware investment strategies by 2025, with at least £1 billion in climate solution investments.

Scottish Widows believes that on a long-term basis (that is over ten years) the responsible investment approach will not negatively affect investments returns for customers and any change to the positioning of the Company's investment funds must be justified in terms of the impact on the risk and return profile.

As a significant shareholder in many of the world's companies, Scottish Widows has the right to vote on their policies and business practices. To help the Company, and the investment managers it works with, use its voting rights to encourage companies to improve their ESG performance, Scottish Widows has produced detailed Voting Guidelines.

The Board is encouraged by Scottish Widows' strong commitment to initiatives being taken to reduce the impact of climate change including its engagement with investee companies to achieve better corporate governance through broader board diversity.

Further detail on Scottish Widows responsible investment and stewardship initiatives including published reports can be found on the Scottish Widows website.

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, in the ordinary course of business, held discussions with the FCA on key aspects of the regulatory agenda impacting the Company. These have included, but not limited to customer complaints, operational resilience, strategic change, supplier dependencies and ESG. The Board, in turn received regular quarterly updates on these and the wider IP&I business' regulatory interactions during the year. This has included updates on: the Company's input to the industry wide FCA Liquidity Management Review which will inform FCA reporting to the industry on best practice management of liquidity across investment funds, discussions with the FCA in respect of enhancements to the management of unclaimed assets/cash of bereaved customers and actions being taken by IP&I regarding the Cost-of-Living crisis.

In addition, throughout the year, the Board received details of the key Regulatory Developments impacting the Company, which included the FCA's Policy Statement (PS21/24) Enhancing Climate Related Disclosures by Asset Managers, life insurers and FCA Regulated pension providers.

During the year, the Board also 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 CASS Resolution Pack rules.

STRATEGIC REPORT (continued)

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

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.

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 the Company's principal investment manager Schroders and outsourced service providers State Street Bank & Trust (SSBT) and Diligenta and takes into consideration supplier feedback where applicable on the Company's processes for potential improvement. The Board's approach to annual reviews is collaborative with participation from both management and suppliers.

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 units, 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 reviews of key supplier risks.

Lloyds Banking Group remains committed to collaborating with suppliers to tackle climate change and ensure it is embedded within the strategy and governance of their organisations. Reducing suppliers' emissions is a key component of its sustainability strategy. This year saw the launch of the Lloyds Banking Group Emerald Standard which suppliers are asked to work towards to help drive progress towards a lower carbon future.

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

Lloyds Banking Group's Modern Slavery & Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies, 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 Board's Sustainability Committee endorses these statements for onward 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 IP&I business.

On behalf of the Board of Directors

J C S Hillman

Director

25 January 2023

DIRECTORS' REPORT

The Directors present the audited financial statements of the Company. The Company is a private company limited by shares, domiciled and incorporated in England and Wales.

The Company is a wholly owned subsidiary of Halifax Financial Services (Holdings) Limited. 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 2022 is a profit after tax of £15.0 million (2021 : £11.8 million). The result is reflective of reduced income from annual management charges (AMC) following the changes to AMC rates during the prior year, offset by lower administrative expenses. The reduction in administrative expenses is related to reduced costs in the current year for the planned migration of customers to a new policy administration platform.

There was a £8.8 million (12.2 per cent) fall in revenue from AMCs during the year which is largely driven by the reduced AMC rates combined with lower average (FUM) through 2022. FUM levels have been impacted as a result of global economic and political factors through the year (2021 : £6.4 million decrease).

Total equity for the Company increased by £15.0 million (2021 : £38.2 million decrease), as a result of the current year's profit retained in 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 (2021: £50.0 million). The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2022 (2021: £nil).

Post balance sheet events

Further information on post balance sheet events is set out in note 26.

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:

D L Davis	(appointed 18 March 2022)
P R Grant	(resigned 10 November 2022)

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

Directors' indemnities

Lloyds Banking Group has granted to the Directors of the Company deeds of indemnity by deed poll and by way of entering into individual deeds, which for the purposes of the Companies Act 2006 constitute 'qualifying third party indemnity provisions', to the directors of its subsidiary companies, including those of the Company. Such deeds were 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 for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group has in place appropriate Directors' and Officers' Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditors

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

Future developments

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

Financial risk management

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

Engagement with suppliers, customers and others

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

DIRECTORS' REPORT (continued)

Independent auditor

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

On behalf of the Board of Directors

J C S Hillman

Director

25 January 2023

Independent auditor's report to the members of HBOS Investment Fund Managers Limited

Report on the audit of the financial statements

Opinion

In our opinion, HBOS Investment Managers Limited’s financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 December 2022 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 on regulatory capital, marked "unaudited" in note 23).

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's report to the members of HBOS Investment Fund 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, including those that are specific to the company’s business sector.

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included 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 and 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 AMC. This represents the largest revenue stream and the fraud risk relates 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 the AMC on a daily basis, using specific fund AMC fee rates and daily net asset values (NAVs). Further testing was completed over the key inputs to this recalculation. The AMC fee rates were tested in detail to assess their accuracy and completeness. Key controls assuring the completeness and accuracy of fund accounting records were tested, with Daily NAVs agreed to these records on a sample basis.

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's report to the members of HBOS Investment Fund 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 FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

25 January 2023

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
Revenue	3	64,219	73,516
Distribution and selling costs	4	(285)	(1,015)
Gross profit		**63,934**	**72,501**
Investment income	5	3,451	237
Net loss on financial assets at fair value through profit or loss	6	(71)	(339)
Administrative expenses	7	(48,641)	(58,103)
Finance costs	9	(116)	(104)
Profit before tax		**18,557**	**14,192**
Taxation charge	10	(3,526)	(2,402)
Profit and total comprehensive income for the year		**15,031**	**11,790**

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

The notes set out on pages 20 to 37 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Deferred origination costs	11	—	269
Deferred tax assets	12	109	126
Financial assets:			
Financial assets at fair value through profit or loss	13	2,938	3,679
Derivative financial instruments	14	1	—
Trade and other receivables	15	34,288	33,678
Cash and Cash equivalents	16	257,904	255,280
Total Assets		295,240	293,032
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	17	8,000	8,000
Retained profits		256,466	241,435
Total equity		264,466	249,435
Liabilities			
Current tax liabilities	18	3,509	2,680
Provisions for other liabilities and charges	19	20	468
Financial liabilities:			
Trade and other payables	20	27,245	40,422
Derivative financial instruments	14	—	27
Total liabilities		30,774	43,597
Total equity and liabilities		295,240	293,032

Retained earnings of the Company includes profit for the year of £15.0 million (2021: £11.8 million).

The notes set out on pages 20 to 37 are an integral part of these financial statements.

The financial statements on pages 16 to 37 were approved by the Board on 25 January 2023.

J C S Hillman, Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit before tax		18,557	14,192
Net (increase) / decrease in operating assets and liabilities	21	(13,522)	12,152
Decrease in deferred origination costs	11	269	538
Finance costs		116	104
Taxation paid		(2,680)	(9,265)
Net cash flows generated from operating activities		**2,740**	**17,721**
Cash flows from financing activities			
Dividends paid	22	—	(50,000)
Finance costs		(116)	(104)
Net cash flows from financing activities		**(116)**	**(50,104)**
Net increase / (decrease) in cash and cash equivalents		2,624	(32,383)
Cash and cash equivalents at the beginning of the year		255,280	287,663
Net cash and cash equivalents at the end of the year	16	**257,904**	**255,280**

The notes set out on pages 20 to 37 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Share capital	Retained profits	Total equity
		£'000	£'000	£'000
Balance as at 1 January 2021		8,000	279,645	287,645
Profit and total comprehensive income for the year		—	11,790	11,790
Dividends paid	22	—	(50,000)	(50,000)
Balance as at 31 December 2021 and 1 January 2022		**8,000**	**241,435**	**249,435**
Profit and total comprehensive income for the year		—	15,031	15,031
Balance as at 31 December 2022		**8,000**	**256,466**	**264,466**

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

The notes set out on pages 20 to 37 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022

The Company has not adopted any new standards, amendments to standards or interpretations of published standards which became effective for financial years beginning on or after 1 January 2022 which have had a material impact on the Company.

Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2022 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current	These amendments affect only the presentation of liabilities as current or non-current in the balance sheet and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively and are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies	The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. The IASB has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2. The amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2023 for IAS 1. There is no effective date for amendments to Practice Statement 2.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. Accounting policies (continued)

(a) Basis of preparation (continued)

Future accounting developments (continued)

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications: • A change in accounting estimate that results from new information or new developments is not the correction of an error • The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors The amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2023
Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit.	Annual periods beginning on or after 1 January 2023

At the date of this report, these pronouncements are awaiting endorsement for use in the United Kingdom.

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

(b) Revenue recognition

Revenue

The majority of revenue, which arose wholly in the United Kingdom, is derived from the management of shares in OEIC sub-funds. Total revenue 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, are recognised over a period of time, and are 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 settled monthly;
- 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, are recognised over a period of time, are settled monthly; and
- Other income, which includes registration fees and initial charges, 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.

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 being provided.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. Accounting policies (continued)

(b) Revenue recognition (continued)

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 on derivative contracts. Movements are recognised in the statement of comprehensive income in the period in which they arise.

Investment income

Interest income arises from investments in liquidity funds, derivative contracts and from units held in Managers Box. Income for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within investment income.

(c) Expense recognition

Distribution and selling costs

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

Administrative expenses

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

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 2022 (CONTINUED)

1. Accounting policies (continued)

(f) Fair value methodology

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.

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 Company. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

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

(g) Trade and other receivables

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

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

(h) Cash and cash equivalents

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

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

1. Accounting policies (continued)

(h) Cash and cash equivalents (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. Accounting policies (continued)

(j) Taxes (continued)

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

Deferred tax

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

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

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

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

(k) Share capital

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

Dividends payable

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

(l) Trade and other payables

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

(m) Provisions for other liabilities and charges

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

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

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

(n) Derivative financial instruments

All derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value.

Changes in the fair value of derivatives are recognised in the statement of comprehensive income, through 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 2022 (CONTINUED)

1. Accounting policies (continued)

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

Classification

Financial asset investment balances comprise the manager's box holdings in 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

There were no critical accounting judgements that would have a significant effect on the amounts recognised in the company financial statements or key sources of estimation uncertainty at the balance sheet date that would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3. Revenue

	2022 £'000	2021 £'000
Annual management charges	62,844	71,614
(Losses) / Income from unit dealing	(551)	478
Other income	1,926	1,424
Total	**64,219**	**73,516**

4. Distribution and selling costs

	2022 £'000	2021 £'000
Commissions payable and other selling costs	16	477
Decrease in deferred origination costs	269	538
Total	**285**	**1,015**

5. Investment Income

	2022 £'000	2021 £'000
Interest and dividend income on financial assets at fair value through profit or loss	3,451	237
Total	**3,451**	**237**

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

	2022 £'000	2021 £'000
Net loss on financial assets at fair value through profit or loss	(71)	(339)
Total	**(71)**	**(339)**

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

7. Administrative expenses

	2022 £'000	2021 £'000
Recharges from other group companies	38,571	45,686
Investment expenses	9,207	10,115
Custodian fees	791	819
Trustee and other investment fees	673	872
Other fees (including provisions for the year)*	(601)	611
Total	**48,641**	**58,103**

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

*Included within this line is an amount relating to the release of a provision totalling £(0.5) million (2021: nil) and IFRS 9 provision movement of £(0.7) million (2021: £0.7 million). See Trade Receivables note 15 for the IFRS 9 impairment allowance.

The Company had no direct employees during the year (2021: nil). The employee costs, including pension costs are included in the recharge from other group companies noted above.

8. Auditor remuneration

	2022 £000	2021 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	55	21
Fees payable to the Company's auditors and their associates for other services:		
Audit-related assurance services	113	108
Total fees payable	**168**	**129**

Audit fees for 2021 and 2022 were borne by another Lloyds Banking Group entity and recharged to the Company.

9. Finance costs

	2022 £'000	2021 £'000
Finance costs	116	104
Total	**116**	**104**

10. Taxation charge

(a) Current year tax charge

	2022 £'000	2021 £'000
Current tax:		
UK corporation tax	3,509	2,680
Adjustment in respect of prior years~	—	(270)
Total current tax	**3,509**	**2,409**
Deferred tax:		
Origination and reversal of timing differences	17	16
Impact of deferred tax rate change	—	(24)
Deferred tax charge	**17**	**(8)**
Tax charge	**3,526**	**2,401**

Corporation Tax is calculated at a rate of 19.00 per cent (2021: 19.00 per cent) of the taxable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

10. Taxation charge (continued)

(b) Reconciliation of tax charge

	2022 £'000	2021 £'000
Profit before tax	18,557	14,192
Tax at 19% (2021: 19%)	3,526	2,696
Effects of:		
Adjustment in respect of prior years	—	(270)
Effect of change in tax rate and related impacts	—	(24)
Total	**3,526**	**2,402**

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.

11. Deferred origination costs

	2022 £'000	2021 £'000
At 1 January	269	807
Amortisation during the year	(269)	(538)
At 31 December	**—**	**269**

12. Deferred tax assets

The movement in the Deferred Tax Asset is as follows:

	2022 £'000	2021 £'000
Brought forward	126	118
Charge for the year	(17)	8
Total	**109**	**126**

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

	2022 £'000	2021 £'000
Other temporary differences	(17)	8
Total	**(17)**	**8**

Deferred Tax Asset comprises:

	2022 £'000	2021 £'000
Other temporary differences	109	126
Total	**109**	**126**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

13. Financial assets at fair value through profit or loss

	2022 £'000	2021 £'000
OEIC fund holdings	2,938	3,679
Total investments at fair value	**2,938**	**3,679**

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 £2.9 million (2021: £3.7 million) and cash and cash equivalents £251.5 million (2021: £249.7 million) in note 16 are investments in unconsolidated structured entities of £254.4 million (2021: £253.4 million) arising from investments in collective investment vehicles.

The investments are carried at fair value and the Company’s maximum exposure to loss is equal to the carrying value of the investment. At 31 December 2022, the total net assets of unconsolidated collective investment vehicles in which the Company held a beneficial interest were £21.5 billion (2021: £24.4 billion). During the year the Company has not provided any non-contractual financial or other support to these unconsolidated collective investment vehicles.

The Company sponsors a range of collective investment vehicles where it acts as the decision maker over the investment activities and markets the funds under one of Lloyds Banking Group’s brands. The Company earns fees from managing the investments of these funds. The investment management fees that the Company earned from these sponsored unconsolidated collective investment vehicles and limited partnerships, including those in which the Company held no interest at 31 December 2022 was £62.8 million (2021: £71.6 million).

14. Derivative financial instruments

The Company's derivative financial instruments are recognised at fair value. Futures are bought to offset the risk of unforeseen losses in operating the OEIC holdings (see note 13).

	2022 £'000	2021 £'000
Derivative assets	1	—
Total derivative assets	**1**	**—**
Derivative liabilities	—	27
Total derivative liabilities	**—**	**27**

The contract amount of the derivatives is £2.2 million (2021: £2.2 million). The carrying amount disclosed reflects the fair values at the year end, and relates to derivative contracts maturing within the next 12 months.

15. Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	33,779	33,761
Amounts due from group undertakings (see note 24)	521	648
IFRS 9 impairment allowance	(12)	(731)
Total	**34,288**	**33,678**

None of the above balances are interest-bearing (2021: none).

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

Of the above total, £nil (2021: £nil) is expected to be settled more than one year after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

16. Cash and cash equivalents

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

	2022 £'000	2021 £'000
Cash at bank	6,419	5,598
Investments held through liquidity funds	251,485	249,682
Total	**257,904**	**255,280**

Cash and cash equivalents does not include client monies held on deposit of £18.3 million (2021: £14.0 million). These amounts are similarly excluded from current liabilities.

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

17. Share capital

	2022 £'000	2021 £'000
Authorised:		
8,000,000 ordinary 'A' shares of £1 each	8,000	8,000
Total	**8,000**	**8,000**
Issued and fully paid share capital:		
8,000,000 (2021: 8,000,000) ordinary 'A' shares of £1 each	8,000	8,000
Total	**8,000**	**8,000**

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

18. Current tax liabilities

	2022 £'000	2021 £'000
Current tax liabilities	3,509	2,680
Total	**3,509**	**2,680**

19. Provisions for other liabilities and charges

	2022 £'000	2021 £'000
At 1 January	468	1,508
Amounts provided during the year	—	808
Amount utilised in the period	48	(1,848)
Provision released in the year	(496)	—
At 31 December	**20**	**468**

Of the above total, £nil (2021: £nil) is expected to be settled more than one year after the reporting date.

20. Trade and other payables

	2022 £'000	2021 £'000
Trade payables	23,006	26,981
Amounts due to group undertakings (see note 24)	3,784	12,770
Other payables	455	671
Total	**27,245**	**40,422**

None of the above balances are interest-bearing or secured (2021: none). Further information in respect of liquidity risk in relation to trade and other payables is given in note 23.

Of the above total, £nil (2021: £nil) is expected to be settled more than one year after the reporting date.

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

	2022 £'000	2021 £'000
Net decrease in operating assets		
Derivative financial instruments	(1)	27
Trade and other receivables	(610)	15,977
Financial assets at fair value through profit or loss	741	(738)
Net decrease in operating assets	**130**	**15,266**
Net (decrease) in operating liabilities		
Derivative financial instruments	(27)	27
Trade and other payables and provisions	(13,625)	(3,141)
Net (decrease) in operating liabilities	**(13,652)**	**(3,114)**
Net (increase) / decrease in operating assets and liabilities	**(13,522)**	**12,152**

22. Dividends paid

	2022 £'000	2021 £'000
Dividends paid	**—**	**(50,000)**

During the year an interim dividend of £nil was paid in respect of 2022 (2021: £50.0 million). The dividend paid in the year amounted to £nil per share (2021: £6.25 per share).

No final dividend is proposed in respect of the year ended 31 December 2022 (2021: £nil).

23. Risk management

The Company is part of Lloyds Banking Group. The principal activity of the Company is that of an ACD of four OEICs and a manager of ISAs. The Company’s funds are not actively marketed but the Company continues to receive increments on existing business.

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

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 2022 (CONTINUED)

23. Risk management (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.

a) Market risk

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

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

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

As at 31 December 2022

	Fair value hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit or loss	2,938	—	—	2,938
Derivative financial assets	1	—	—	1
Cash and cash equivalents	257,904	—	—	257,904
Total assets	**260,843**	**—**	**—**	**260,843**
Derivative financial liabilities	—	—	—	—
Total liabilities	**—**	**—**	**—**	**—**

As at 31 December 2021

	Fair value hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit or loss	3,679	—	—	3,679
Derivative financial assets	—	—	—	—
Cash and cash equivalents	255,280	—	—	255,280
Total assets	**258,959**	**—**	**—**	**258,959**
Derivative financial liabilities	(27)	—	—	(27)
Total liabilities	**(27)**	**—**	**—**	**(27)**

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 £4.7 million (2021: £5.5million) based on year end values. These are classified as indirect market risks.

23. Risk management (continued)

a) Market risk (continued)

(i) Interest rate risk

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

	Impact on profit after tax and equity for the year	
	2022	**2021**
	£'000	**£'000**
25 basis points (2021: 25 basis points) increase in yield curves	(230)	(481)
25 basis points (2021: 25 basis points) decrease in yield curves	230	481
50 basis points (2021: 50 basis points) increase in yield curves	(471)	(977)
50 basis points (2021: 50 basis points) decrease in yield curves	471	977

(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.

b) 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:

	2022	**2021**
	£'000	**£'000**
Trade and other receivables	34,288	33,678
Cash and cash equivalents	257,904	255,280
Total assets bearing credit risk	**292,192**	**288,958**

23. Risk management (continued)

b) Credit risk (continued)

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

As at 31 December 2022

	Total £'000	AAA £'000	AA £'000	A £'000	Not rated £'000
Stage 1 assets					
Trade and other receivables	34,300	—	—	521	33,779
Cash and cash equivalents	6,419	—	—	6,419	—
Loss allowance	(12)	—	—	—	(12)
Exposure to credit risk	**40,707**	**—**	**—**	**6,940**	**33,767**
Assets at fair value through profit and loss					
Cash and cash equivalents	251,485	—	—	251,485	—
Total	**292,192**	**—**	**—**	**258,425**	**33,767**

Of the unrated assets; approximately £19.8 million (2021: £22.4 million) relate to payments due from OEICs.

As at 31 December 2021

	Total £'000	AAA £'000	AA £'000	A £'000	Not rated £'000
Stage 1 assets					
Trade and other receivables	34,409	—	—	648	33,761
Cash and cash equivalents	5,598	—	—	5,598	—
Loss allowance	(731)	—	—	—	(731)
Exposure to credit risk	**39,276**	**—**	**—**	**6,246**	**33,030**
Assets at fair value through profit and loss					
Cash and cash equivalents	249,682	—	—	249,682	—
Total	**288,958**	**—**	**—**	**255,928**	**33,030**

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:

	2022 Total £'000	2021 Total £'000
Trade and other receivables:		
Amounts due from brokers	11,857	10,735
Amounts due from group undertakings	521	648
Other receivables	21,910	22,295
Cash and cash equivalents:		
Amounts due from group undertakings	6,419	5,598
Other cash and cash equivalents	251,485	249,682
Total	**292,192**	**288,958**

23. Risk management (continued)

c) 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 2022			**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**
Derivative Financial instruments	—	—	—	—	—	—	—
Trade and other payables	27,245	—	27,245	—	—	—	—
Total	**27,245**	**—**	**27,245**	**—**	**—**	**—**	**—**

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**
Derivative Financial instruments	27	—	—	27	—	—	—
Trade and other payables	40,422	—	40,422	—	—	—	—
Total	**40,449**	**—**	**40,422**	**27**	**—**	**—**	**—**

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.

d) Capital risk (unaudited)

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 IP&I Division, capital risk is actively monitored by Insurance, Pensions and Investments Asset Liability Committee (IPIALCO).

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

23. Risk management (continued)

d) Capital risk (unaudited) (continued)

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

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

	2022 £'000	2021 £'000
Regulatory capital held	264,357	249,040
Regulatory capital requirement	12,387	13,315

All minimum regulatory requirements were met during the year.

24. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Halifax Financial Services (Holdings) Limited, a Company registered in the United Kingdom. Halifax Financial Services (Holdings) Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated Financial Statements.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the 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 16 authorised OEIC sub-funds (2021: 16).

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

	2022 £'000	2021 £'000
OEIC sub funds		
Aggregate total transactions for the year:		
Creations	2,132,637	3,587,429
Cancellations	(2,235,627)	(3,555,636)
Aggregate amounts due to trustee and depositary:		
Accrued at year end	107	206
Amounts received by the Company		
Gross annual investment management fees	62,844	71,614
Amounts receivable at the year-end:		
Investment management fees	4,560	5,340
Managers' box		
Managers' box held at year end	2,938	3,679

24. Related party transactions (continued)

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

Transactions between the Company and other Lloyds Banking Group companies

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

	2022			
	Income during £'000	Expenses during £'000	Payable at period end £'000	Receivable at period £'000
Relationship				
Parent	—	—	—	—
Other related parties	6,234	38,587	3,784	521

	2021			
	Income during £'000	Expenses during £'000	Payable at period end £'000	Receivable at period £'000
Relationship				
Parent	—	50,000	—	—
Other related parties	6,526	46,163	12,770	648

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

Transactions between the Company and key management

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

The Executive Directors consider that they receive no remuneration for their services to the Company. The Non-Executive Directors received short-term employee benefits and remuneration in respect of qualifying services totalling £19,541 (2021 – £20,043). None of the Non-Executive Directors are entitled to receive share options, retirement benefits or amounts under long-term incentive schemes.

25. Contingent liabilities and capital commitments

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.

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. £2.2 million (2021 - £4.4 million) relating to the share of these future payments may be expensed to the Company as incurred in future periods.

26. Events after the reporting date

There are no events after the reporting date.