SC199548

Scottish Widows Financial Services Holdings

Annual Report and Accounts
2022

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

J S Wheway (Chair)

W L D Chalmers
D L Davis
J C S Hillman*
A Lorenzo*
C J G Moulder
A J Reizenstein
G E Schumacher
S J O'Connor

* denotes Executive Director

Company Secretary

J M Jolly

Independent Auditors

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Company Registration Number

SC199548

STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Financial Services Holdings (the "Company") for the year ended 31 December 2022. The Company is registered in Scotland and is a private unlimited company.

The Company contributes to the results of the Insurance, Pensions & Investments Division of Lloyds Banking Group (LBG) plc.

Principal activities

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

Result for the Year

The result for the year ended 31 December 2022 is a profit after tax of £45 thousand (2021 loss after tax: £48.2 million). The result for the year reflects income from investments.

The effect of the profit for the year is that total net assets of the Company as at 31 December 2022 have increased by £45 thousand to £192.5 million (2021: total net assets £192.4 million).

Economic Environment

After starting 2022 with economic activity constrained by COVID-19, UK GDP recovered almost to its pre-pandemic level by mid-year. During the second half of the year, however, Russia's invasion of Ukraine began to have a large impact on global and UK economies. Higher energy and supply chain costs, and increasing food prices, contributed to pushing UK CPI inflation to a 41 year high of 11 per cent during the fourth quarter. These factors have all contributed to increasing the cost of living which impacts the Company and its customers. In line with Lloyds Banking Group's purpose of Helping Britain Prosper and a clear customer focus, Lloyds Banking Group are providing support to those most affected by changes to the economic environment. The Company will continue to monitor the situation and risks to the business.

Climate Change

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.

Scottish Widows has launched its climate plan that sets out a long-term strategy with actions to drive the investment portfolio towards net zero by 2050, as well as targeting by 2025, the investment of between £20 billion and £25 billion in climate-aware investment strategies. A total of £12 billion was invested in 2022. The climate plan is formulated in a manner that prioritises customer goals within decision-making.

The Company is supportive of the Task Force on Climate-Related Financial Disclosures ("TCFD") framework and related regulatory expectations, and aligned to best practice outlined by the Climate Financial Risk Forum ("CFRF") has published a TCFD aligned report at the parent entity level, Scottish Widows Group Limited (SWG).

The full SWG TCFD report is available on the Scottish Widows website at www.scottishwidows.co.uk/climatereport.

The Company will continue to monitor the situation and risks to the business.

Governance

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

Governance for climate-related risk has been embedded into the existing governance structure and is complementary to the governance of Lloyds Banking Group's sustainability strategy. The Insurance, Pensions & Investments Division operates the Insurance Sustainability Committee, which reviews the Environmental, Social and Governance ("ESG") strategy of the Division, and its alignment to Lloyds Banking Group's strategic aims.

The Company has a well-established and robust risk management framework used to identify, measure, monitor, manage and report the risks faced by the business. Climate Risk is managed using this framework, consistent with all other risks.

Climate Risk has been integrated into the Company's existing risk management framework, both as a principal risk on its own, as well as integration into other materially impacted principal risks.

STRATEGIC REPORT (continued)

Climate Change (continued)

Strategy

The Company's position as a large investor presents an opportunity to participate in and influence the transition to a low carbon economy for the long-term benefit of customers and society. The Company has set goals to target a 50 per cent reduction in the carbon intensity (across the investment portfolio of customer and shareholder funds) by 2030 on a path to 'net zero' by 2050. The Company also backs climate solutions for real-world impact, and the use of engagement and shareholder voting power to drive companies to make the changes necessary. Further detail can be found in the Scottish Widows Climate Action Plan, published in February 2022, available at https://www.scottishwidows.co.uk/about_us/responsibleinvestment/.

In early 2023, Lloyds Banking Group published its Environmental Sustainability Report, building on the Climate Action Plan. This report is available at www.lloydsbankinggroup.com/assets/pdfs/who-we-are/responsible-business/downloads.

Climate related scenario analysis is an evolving area that is important to the business and will be used to produce outputs that aid the understanding of Climate Risk and support decision making. The Group is currently developing a climate scenario analysis model to inform such insight. The output of this model will be published in the 2022 Scottish Widows TCFD report and starting in 2023, the outputs from these scenario analyses will be used to support forecasts and plans. The scenario modelling outputs generated will also be reviewed as to inform the Group's strategic approach.

Metrics & Targets

Climate-related metrics form part of the Company's regular reporting to the Board, not just for disclosures but also for internal risk management. Since 2021, expanded internal metrics are regularly reported for monitoring progress of the net zero transition.

The portfolio's "carbon footprint" is the principal metric for measuring financed emissions and monitoring progress toward the 2030 and 2050 net zero targets. The footprint is the total tonnes of carbon dioxide equivalents (CO2e) "owned" by the portfolio and scaled by £million invested. Measurement initially includes the Scope 1 and 2 (i.e. operational) emissions of investee companies.

The Scottish Widows 2022 TFCD Report will for the first time provide a breakdown of climate intensity metrics by product, allowing additional granularity for customers to inform their decision making.

Key performance indicators

The Company's principal business during the year was the holding of investments in subsidiaries. Its principal income is the receipt of dividends from these subsidiaries. In 2022, £nil dividends were received from subsidiary undertakings (2021: £75m). The profit after tax of £45 thousand (2021 loss: £48.2 million) is primarily driven by investment income.

The effect of the profit for the year is that total net assets of the Company as at 31 December 2022 have increased £45 thousand to £192.5 million (2021: total net assets £192.4 million).

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

Outlook

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

Principal risks and uncertainties

The Company through its investment in subsidiaries is also exposed to financial risk, in particular the risk of reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting, financial reporting fraud and impairment of subsidiary companies. Further details on the current year impairment are included in note 7.

The following table describes the principal risks faced by the Company. Further details on financial risks and how the Company mitigates them can be found in note 13, as shown by the note reference.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Financial risks

Principal Risk	Note reference	Description
Liquidity risk	13(e)	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 non-policyholder 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.

Non-financial risks

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

Principal Risk	Description
Operational risk	Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This includes risks around cyber and information security, provision of external and internal services, financial crimes, financial reporting risk, fraud, IT systems, and security. Operational risk is managed through an operational risk framework, including a Risk and Control Self-Assessment (RCSA) process, and operational risk policies. The Group 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.
Climate risk	Climate risk is defined as the risk that the Company experiences losses and/or reputational damage, either from the impacts of climate change and the transition to net zero, or as a result of the Company's responses to tackling climate change. The Company considers the impact of climate risk as a risk driver on other risks types, such as credit risk, market risk, and operational risk. Climate risk is mitigated via the application of the Climate Risk Policy, and actions taken to address other risk types.

STRATEGIC REPORT (continued)

Section 172(1) Statement

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

This Statement also provides examples of how the Directors have engaged with and had regard to the interests of key stakeholders in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018). The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group, which are further referred to in this Statement where relevant.

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

How the Board has discharged its Section 172 duties

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

Stakeholder engagement is embedded in the Board's delegation of authority to the Chief Executive Scottish Widows & Group Director Insurance (Chief Executive) for the delivery of the Company's strategy and overall management of the Company's business within its defined risk appetite. The Chief Executive discharges their responsibility for the day-to-day management of the Company's business by delegating key areas of their authority to members of management and with the assistance of the Executive Committee (the Insurance, Pensions & Investments Executive Committee (IP&IExCo)) which enables him to make informed decisions about the operations of the Company's business.

The Chief Executive and management both provide the Board with details of material stakeholder interaction and feedback, through a programme of business updates. Stakeholder interests are routinely identified by management in the wider proposals put before 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 7 to 9 which serves as the Company's Section 172(1) Statement. Given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

Investment performance

The Board of the Company is responsible for the strategy of investing customer assets, supported by some of its committees. Its approach to investment management is supported by the Company's appointed active fund manager, Schroder Investment Management (Schroders).

The Company's business model of partially 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 mandate. This approach also enables the Company to keep the performance of its appointed asset manager under ongoing review. The management of most of the Company's active funds by Schroders provides access to leading investment management expertise and helps to drive improved potential for increased investment returns for customers. The Company regularly reviews the performance of external asset managers.

Helping Britain Prosper

Early in 2022 Lloyds Banking Group launched its next chapter of Helping Britain Prosper. It recognised the need to play a role in communities, to support people from every background and help solve the biggest challenges faced by society to implement profitable solutions that help both people and the planet. Those two big trends of inclusion and sustainability will significantly dominate the next decade and Lloyds Banking Group, of which the Company forms a part, wishes to use its presence and scale to be a positive force in shaping the role played by finance.

Lloyds Banking Group continues to invest significantly in the development of its Insurance, Pensions & Investment business, of which the Company forms part, 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 Lloyds Banking Group's 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, at https://www.lloydsbankinggroup.com/investors/annual-report.html.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group, forming part of its Insurance, Pensions & Investments division. As a wholly owned subsidiary the Board ensures that the strategy, priorities, processes and practices of the Company are aligned where appropriate to those of Lloyds Banking Group, ensuring that its interests as the Company's shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2022.

The relationship between the Board of the Company and the Board of Lloyds Banking Group is supported by at least one senior leader from Lloyds Banking Group serving as a Non-executive Director on the Insurance Board throughout 2022. An Independent Non-executive Director of Lloyds Banking Group plc was also welcomed as an attendee at one of the meetings of the Board during Company during 2022. The Board of the Company also welcomed the Chief Executive Officer of Lloyds Banking Group joining one of its meetings during 2022, for a roundtable discussion of Group Strategy and the role of Insurance, Pensions & Investments within it. During 2022 a meeting of the Directors of the Company was held with the directors of fellow subsidiary company Lloyds Bank Commercial Markets and the Board of the shareholder, Lloyds Banking Group.

Communities and the environment

The Board's consideration of environmental matters is supported by its Sustainability Committee, the majority of whose members are independent non-executive Directors. The primary purpose of this Committee is to review and recommend to the Board the Environmental, Social and Governance (ESG) Strategy of the Company in alignment with Insurance Pensions & Investments business with which the Company is a part of and Lloyds Banking Group's overarching purpose of Helping Britain Prosper. 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 at: https://www.scottishwidows.co.uk/about_us/responsibleinvestment/information-hub/.

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 considers 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.

Board diversity

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

Regulators

The Board and the Company maintain strong, open, and transparent relationships with regulators and relevant 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. In June and September 2022 respectively the Board invited representatives from the Financial Conduct Authority and Prudential Regulation Authority to join one of its meetings to discuss key priorities. In addition, individual Directors have in the ordinary course of business continuing discussions with regulators on various matters within the regulatory agenda. Regulatory engagement provides a view of the key areas of regulatory focus to management and the Board with monitoring of regulatory actions in place.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

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 business ethics and modern slavery.

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 and Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies, including the Company, which is required to publish an annual statement. This statement sets out the steps taken to prevent modern slavery in Lloyds Banking Group’s business and supply chains.

Maintaining a reputation for high standards of business conduct

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

J C S Hillman

Director

30 March 2023

DIRECTORS' REPORT

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

Results for the year

The result of the Company for the year ended 31 December 2022 is a profit after tax of £45 thousand (2021 loss after tax of £48.2 million) and this has been transferred to reserves. The result for the year reflects income from investments. The Directors consider the result for the current year to be satisfactory in light of the activities of the Company and its subsidiaries and the prevailing economic climate. The total net assets of the Company at 31 December 2022 are £192.5 million (2021: total net assets £192.4 million).

During the year, £nil of dividends were paid (2021: £50m). No final dividend is proposed in respect of the year ended 31 December 2022 (2021: £nil).

Directors

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

D L Davis	(Appointed 18 March 2022)
J E M Curtis	(Resigned 7 October 2022)
J S Wheway	(Appointed 1 August 2022)

Particulars of the Directors' emoluments are set out in note 14.

Directors' indemnities

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

Disclosure of information to auditor

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

Future developments

Future developments are detailed within the Strategic Report.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company have adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the risk management section (note 13). Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Financial risk management

Disclosures relating to financial risk management are included in note 13 of the accounts and are therefore incorporated into this report by reference.

Independent auditors

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

DIRECTORS' REPORT (continued)

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether for the Company, UK-adopted 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 judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company
- the Company Strategic Report on pages 4 to 9, and the Directors' Report on pages 10 to 11 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

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

J C S Hillman

Director

30 March 2023

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Scottish Widows Financial Services Holdings (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of cash flows;
- the statement of changes in equity; and
- the related notes 1 to 16.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

We discussed among the audit engagement team including relevant internal specialists such as tax 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.

In common with all audits under ISAs (UK), we are 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 risk 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;
- reviewing management's judgements and estimates relating to impairment on the Company's investments in subsidiaries for indicators of management bias;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the FCA.

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

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.

Charlie Scarr, ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

London, United Kingdom

30 March 2023

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
Revenue			
Investment income	3	58	1
Income from shares in subsidiary undertakings		—	75,000
Total revenue		58	75,001
Expenses			
Impairment of subsidiary undertakings	7	—	(123,205)
Finance costs	4	(2)	—
Total expenses		(2)	(123,205)
Profit/(loss) before tax		56	(48,204)
Taxation charge	6	(11)	—
Profit/(loss) for the year		45	(48,204)

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

The notes set out on pages 19 to 27 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Investment in subsidiaries	7	188,149	188,149
Other assets		11	—
Cash and cash equivalents	8	4,314	4,269
Total assets		192,474	192,418
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	9	1,000	1,000
Share premium	9	375	375
Other Reserves	10	1,032,213	1,032,213
Accumulated losses		(841,125)	(841,170)
Total equity		192,463	192,418
LIABILITIES			
Current tax liabilities	6	11	—
Total liabilities		11	—
Total equity and liabilities		192,474	192,418

The notes set out on pages 19 to 27 are an integral part of these financial statements.

The financial statements on pages 15 to 27 were approved by the Board on 30 March 2023 and signed on behalf of the Board

J C S Hillman

Director

30 March 2023

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit/ (Loss) before tax		56	(48,204)
Adjusted for:			
Investment income	3	(58)	(1)
Income from shares in subsidiary undertakings		—	(75,000)
Impairment in investment in subsidiary	7	—	123,205
Net decrease in operating assets	11	(11)	(27,400)
Corporate income taxes paid		—	(3)
Net cash flows paid from operating activities		(13)	(27,403)
Cash flows from investing activities			
Investment income received	3	58	1
Dividends received		—	75,000
Net cash flows generated from investing activities		58	75,001
Cash flows from financing activities			
Dividends paid		—	(50,000)
Net cash flows used in financing activities		—	(50,000)
Net increase in cash and cash equivalents		45	(2,402)
Cash and cash equivalents at the beginning of the year		4,269	6,671
Net cash and cash equivalents at the end of the year	8	4,314	4,269

The notes set out on pages 19 to 27 are an integral part of these financial statements.

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

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Accumulated losses and retained earnings £'000	Total equity £'000
Balance as at 1 January 2021		1,000	375	1,082,213	(792,966)	290,622
Total comprehensive loss for the year		—	—	—	(48,204)	(48,204)
Dividend	12	—	—	(50,000)	—	(50,000)
Balance as at 31 December 2021		1,000	375	1,032,213	(841,170)	192,418
Total comprehensive income for the year		—	—	—	45	45
Dividend	12	—	—	—	—	—
Balance as at 31 December 2022		1,000	375	1,032,213	(841,125)	192,463

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

The above amounts are further referred to in note 9 (Share capital and premium) and note 10 (Other reserves).

The notes set out on pages 19 to 27 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) and in conformity with the requirements of the Companies Act 2006

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

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

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

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

Standards and interpretations effective in 2022

The Company has adopted the following amendments to IFRS as at 1 January 2022. Adoption has had no significant impact on the financial position of the Company.

Minor amendments to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) as well as the following amendments as as result of the Annual improvements to IFRS Accounting Standards 2018-2020 cycle:

- IFRS 9 (Financial Instruments)
- IFRS 16 (Leases)

As at the date of authorisation of these financial statements, the Company has not early adopted any issued amendments or standards.

Future accounting developments

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

(b) Revenue recognition

Investment income

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

(c) Investments in subsidiaries

The Company owns a number of subsidiaries as set out in note 7. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company’s impairment policy is set out at policy (e).

(d) Cash and cash equivalents

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

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

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

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

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

1. Accounting policies (continued)

(e) Impairment

Financial assets

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

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

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

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

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

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

Non-financial assets

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

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

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

(f) 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

1. Accounting policies (continued)

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

(g) Share capital

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

Dividends payable

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

2. Critical accounting judgements or key sources of estimation uncertainty

The Company's management makes estimates that affect the reported amount of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

a. Key sources of estimation uncertainty

Investment in subsidiaries

The Company uses estimates in the assessment of investment in subsidiaries for possible impairment. These include estimates used for value in use calculations relating to discount factors and growth assumptions. Further details of estimates used appear in note 7.

b. Critical judgements

Investment in subsidiaries

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

3. Investment income

	2022	**2021**
	£'000	**£'000**
Interest receivable on investments in a liquidity fund	58	1
Total	58	1

4. Finance costs

	2022	**2021**
	£'000	**£'000**
Bank charges	2	—
Total	2	—

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

5. Auditors' remuneration

	2022 £'000	2021 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	20	5
Total fees payable	20	5

Audit fees for 2022 and 2021 were paid by another Company within Lloyds Banking Group and were not recharged to the Company.

6. Taxation charge

(a) Current year tax (charge)/credit

	2022 £'000	2021 £'000
Current tax:		
UK corporation tax	(11)	—
Total current tax	(11)	—

(b) Reconciliation of tax (charge)/credit

	2022 £'000	2021 £'000
Profit before tax	56	(48,204)
Tax at 19 per cent (2021: 19 per cent)	(11)	9,159
Effects of:		
Income from shares in subsidiary undertakings	—	14,250
Impairment of investment in subsidiary undertaking	—	(23,409)
Total	(11)	—

(c) Tax liabilities

	2022 £'000	2021 £'000
Current tax liabilities	11	—
Total tax liabilities	11	—

7. Investment in subsidiaries

	2022 £'000	2021 £'000
At 1 January	188,149	311,354
Impairment of investment in subsidiaries	—	(123,205)
At 31 December	188,149	188,149

No impairment has been recognised during 2022 (2021: £123.2 million). The impairment in 2021 arose following an impairment of its investment in the carrying value of subsidiary Halifax Financial Services (Holdings) Limited, which itself recognised an impairment of its investment in the carrying value of its subsidiary, HBOS Investment Fund Managers Limited (HIFML). Primarily, this occurred as a result of changes in the underlying forecast assumptions in relation to HIFML's value in use, principally caused by a dividend paid in the year and reductions in the forecast profitability of subsequent periods.

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

7. Investment in subsidiaries (continued)

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

A review of the carrying value of the subsidiary investments to assess indications of impairment is performed on an annual basis. In 2022 the carrying value was compared to the net asset value and no value-in-use calculations performed.

In 2021 the recoverable amount was calculated on a value in use basis, using the dividend discount method of valuation. The applicable pre tax discount factor used for 2021 was 8.64 per cent. This has been applied to distributable profits and forecast dividends in line with the approved business plan. Growth assumptions and forecasts are also key assumptions utilised in production of these estimates of distributable profits and forecast dividends.

Significant Estimate: Impact of possible changes in key assumptions

If the discount rate applied to the cash flow projections had been 1 per cent higher, there would had been no change to the impairment charge. If the discount rate had been 1 per cent lower, there would had been no change to the impairment charge. Under these scenarios no other impairments in subsidiaries would be required.

Subsidiaries and Associates

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

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

* In liquidation

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

Subsidiaries and Associates

Registered office addresses

(1) 69 Morrison Street, Edinburgh, Midlothian, EH3 8YF

(2) 33 Old Broad Street, London, EC2N 1HZ

(3) Trinity Road, Halifax, West Yorkshire, HX1 2RG

(4) Bank of Scotland, The Mound, Edinburgh, EH1 1YZ

(5) 1 More London Place, London, SE1 2AF

8. Cash and cash equivalents

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

	2022 £'000	2021 £'000
Investment in a liquidity fund	4,314	4,269
Total	4,314	4,269

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

9. Share capital and premium

	2022 £'000	2021 £'000
Issued and fully paid share capital:		
100,000,000 (2021: 100,000,000) ordinary shares of £0.01 each	1,000	1,000
Share Premium	375	375
Total	1,375	1,375

10. Other reserves

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

In 2016, the Board approved a Resolution to make other reserves distributable. This reserve is therefore available for future distributions.

In 2021 a dividend of £50,000,000 was paid from other reserves. As 31 December 2022 other reserves balance was £1,032,213,000.

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

	2022 £'000	2021 £'000
Net increase in operating assets		
Financial assets:		
Loans and receivables at amortised cost	(11)	—
Net increase in operating assets	(11)	—
Net decrease in operating liabilities		
Financial liabilities:		
Amounts owed to Lloyds Banking Group undertakings	—	(27,400)
Net decrease in operating liabilities	—	(27,400)

12. Dividends paid

	2022 £'000	2021 £'000
Total dividends paid on equity shares	—	50,000

The Company paid a dividend of £nil in 2022 (2021: £50m). The dividend paid in the year amounted to £nil per share (2021: £0.50 per share).

13. Risk management

The Company acts as an intermediate holding company.

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

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

(a) Market risk

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

The main investments of the Company are the holdings in subsidiary companies, which are set out in note 7. Holdings of individual assets are essentially interest bearing, and are covered further below.

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

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

13. Risk management (continued)

(b) Interest rate risk

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

(c) Credit risk

The risk that parties with whom we have contracted fail to meet their financial obligations. The Company holds investments in a liquidity fund of £4.3 million (2021: £4.3 million), with a credit rating of A using Standard & Poor's rating or equivalent. Credit risk in respect of these balances is not considered to be significant. There were no past due or impaired financial assets at 31 December 2022 (2021: none). No terms in respect of financial assets had been renegotiated at 31 December 2022 (2021: none).

(d) Capital Risk

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

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

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

The Company's capital comprises all components of equity £192.5 million (2021: £192.4 million), movements in which are set out in the statement of changes in equity.

(e) Liquidity risk

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

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

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

The Company has only taxation liabilities in 2022 related to current year taxation. There are no other liabilities in 2022 or 2021 year end and as such no disclosure of the timing of settlement of contractual cash flows has been made.

As at 31 December 2022		**Contractual cash flows**					
	Carrying amount	**No stated maturity**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Liabilities	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Tax liabilities	11	—	—	—	11	—	—
Total	11	—	—	—	11	—	—

There were no contractual cashflows as at 31 December 2021

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

14. Related party transactions

(a) Ultimate parent and shareholding

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

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

(b) Transactions and balances with related parties

Transactions with other Lloyds Banking Group companies

The Company has entered into transactions with related parties in the normal course of business during the year

	2022			
	Income during year	**Expenses during year**	**Payable at year end**	**Receivable at year end**
	£'000	**£'000**	**£'000**	**£'000**
Relationship				
Parent	—	—	—	—
Subsidiary	—	—	—	—
Other related parties	—	—	—	—

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

Transactions between the Company and entity employing key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are all Directors and IP&IExCo members. Key management personnel, as defined by IAS 24, are employed by a management entity, transactions with this entity are as follows:

	2022	**2021**
	£	**£**
Short-term employee benefits	191,641	149,790
Post-employment benefits	772	768
Share-based payments	37,391	34,206
Total	229,804	184,764

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £108,542 (2021: £72,088).

There were no retirement benefits accruing to Directors (2021: no directors) under defined benefit pension schemes. No Directors (2021: two Directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2021: nil).

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

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

14. Related party transactions (continued)

Transactions between the Company and entity employing key management (continued)

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £24,769 (2021: £19,376). During the year, no director exercised share options (2021: two directors) and one director received qualifying service shares under long term incentive schemes (2021: two directors). Movements in share options are as follows:

	2022 Options	2021 Options
Outstanding at 1 January	441,457	514,009
Granted	239,882	107,003
Exercised	(136,817)	(65,442)
Forfeited	(123,247)	(115,666)
Dividends awarded	1,858	1,554
Outstanding at 31 December	423,132	441,457

Detail regarding the highest paid Director is as follows:

	2022 £	2021 £
Apportioned aggregate emoluments	43,553	41,042
Apportioned share-based payments	17,261	16,337

The highest paid Director did not exercise share options during the year. (2021: The highest paid Director did exercise share options during the year).

15. Contingent Liability

Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the Company of approximately £186k (including interest). The Company, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

16. Post balance sheet events

There are no events after the reporting date up until the date of issuance.