Scottish Widows Administration Services Limited

Annual Report and Financial Statements
2019

Member of Lloyds Banking Group

CONTENTS

COMPANY INFORMATION

Board of Directors

N E T Prettejohn (Chairman)

J C S Hillman
A Lorenzo
S W Lowther
D MacKechnie

Company Secretary

J M Jolly

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Number

01132760

STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Administration Services Limited ('the Company') for the year ended 31 December 2019.

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

Principal activities

The Company acts as platform operator and as a manager for Individual Savings Accounts (ISAs), Investment Accounts and Self Investment Personal Pensions (SIPPs) in the United Kingdom. It also provides outsourcing and administration services as well as carrying out oversight of the securities lending programme for companies within the Insurance Division.

The Company is authorised and regulated by the Financial Conduct Authority (FCA) and has obtained the necessary regulatory permissions to undertake its activities.

Result for the year

The result of the Company for the year ended 31 December 2019 is a loss before tax of £4.2m (2018: £6.3m).

The loss for the year has reduced as a result of the increase in contribution from the savings business, following the Zurich workplace savings business acquisition in April 2018. Assets under administration on the Corporate Savings Platform for which the Company receives a fund based charge have increased by £14.3bn driven by internal transfers and market returns.

The total net assets of the Company at 31 December 2019 are £80.3m (2018: £83.2m).

Emerging Risks

The UK leaving the European Union (EU)

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and ongoing challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. There also remains the possibility of a further referendum on Scottish independence.

Coronavirus

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The potential adverse impact on the value and trading of stocks, bond yields, credit spreads and commodities can also be seen in significant market falls, reduced liquidity and rises in volatility. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the retail or corporate customers of the Lloyds Banking Group and as a result have a material adverse effect on the Lloyds Banking Group's results of operations, financial condition or prospects.

As a result of the global health issues, the potential for operational risks materialising increases, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the business will need to change its ways of working whilst managing any site contamination to ensure continuity and support to colleagues and customers.

Climate Change

Strategy
The UK is committed to the vision of a sustainable, low carbon economy and the successful transition is of strategic importance to the Company. When reporting on our strategic progress, we support the Taskforce on Climate-Related Financial Disclosure (TCFD) framework, and plan to achieve full disclosure by 2022.

Our ambition
LBG has set seven leadership ambitions to support the UK's transition to a sustainable future. Those that are relevant to the Company are:

- Pensions & Investments: be a leading UK pension provider that offers our customers sustainable investment choices, and challenges companies we invest in to behave more sustainably and responsibly.
- Our Own Footprint: be part of a leading UK bank in reducing our own carbon footprint and challenging our suppliers to ensure our own consumption of resources, goods and services is sustainable.

STRATEGIC REPORT (CONTINUED)

Progress
Throughout 2019, we have been actively reviewing asset exposures by type and continue to make enhancements to existing Stewardship policies and procedures. Much of our engagement activity is currently undertaken through 3rd party asset managers.

In addition to our own stewardship activity, our investment managers will work with Investee Companies to influence their strategy and approach, liaising with management and voting on resolutions, with a clear focus on enhancing a company's Environmental, Social and Governance (ESG) approach.

Metrics and targets
As part of our TCFD implementation plan we are developing our approach to reporting appropriate metrics and targets during 2020. Initially we will consider our exposure to carbon intensive sectors and the subsequent risks. This will be used to support a long term reporting framework, enabling us to track our performance against our sustainability strategy, and disclose the financial impact of climate change related risks and opportunities.

Risk management
Climate risk is a key emerging risk for the Company. Our approach to identifying and managing climate risks is founded on embedding it into our existing Risk Management Framework, and integrating through policies, authorities and risk control mechanisms. During 2019, we updated our plan for implementing the TCFD recommendations and invested in resource to implement.

Governance
Given the importance of our ambitions, our governance structure provides clear oversight and ownership of the sustainability strategy, implementation of the TCFD recommendations and adherence to the evolving regulatory requirements on climate risk.

Further details of the LBG approach of transitioning to a low carbon economy can be found in the Lloyds Banking Group Annual Report and financial statements, which can be downloaded via www.lloydsbankinggroup.com.

Key performance indicators

Assets Under Administration and associated income

The total value of assets under administration of the Company held on the Corporate Savings Platform at 31 December 2019 amounted to £23.0bn (2018: £8.7bn). Assets under the administration of the Company consist of safe custody assets, which the Company administers for its clients, and client money balances, for which the Company holds legal title on trust for its clients.

Associated revenue for the year was £17.8m (2018: £8.9m). This comprises fee income from the platform business.

Capital Resources

The Directors believe that the Company currently has adequate capital resources, £45.5m (2018: £47.9m) and will continue to do so in the foreseeable future. Further information on the capital position of the Company is given in note 19.

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 approved risk appetite.

Return on Assets

Article 90 of the Capital Requirements Directive requires the disclosure of the Company's return on assets. The current year return on assets is (3.4%) (2018: (5.3%)). This improvement in return on assets is driven by increased contribution of the savings business acquired from Zurich.

Other Sources

The Company also forms part of LBG's Insurance Division. The development, performance and position of the Insurance Division are presented within LBG's Annual report, which does not form part of this report.

The Directors consider that the above are the key performance indicators which are appropriate to the principal activities 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 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.

STRATEGIC REPORT (CONTINUED)

Outlook

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

Principal risks and uncertainties

During the year, the management of the business and the execution of the Company's strategy were subject to a number of risks. The principal risks include market, operational, and counter party default risk due to the Company's savings business and administration of the Corporate Savings Platform. Further detail on the financial risk management objectives and policies of the Company and the exposure to risks including market, credit, capital, liquidity, and non-financial risks are set out in note 19.

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

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), for the year ended 31 December 2019, the Directors provide the following statement describing how they have had regard to the matters set out in section 172 (1) of the Act, when performing their duty under section 172. Further details on key actions in this regard are also contained within the Directors' Report on page 9.

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 following statement also provides details of how the Directors have engaged with and had regard to the interest of customers and suppliers. The Company is a subsidiary of LBG, and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

The Directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of LBG, achieves long-term success and generates sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct. This approach has during the course of the year been central to the activities of the Directors, as discussed below.

Customers

The Directors ensure the Company as part of LBG works toward achieving LBG's customer ambitions, to treat all customers fairly, and make it easy for customers to find, understand and access products that are right for them. To ensure Directors truly understand the needs of customers, every opportunity is taken to consider direct customer feedback and related management information, including as part of the Directors' strategic decision making process. The Directors undertook Digital Lab visits designed to bring senior leaders across LBG closer to customers. The Directors have also worked to ensure the business of the Company is undertaken in line with the objectives of LBG's annually agreed customer plans. LBG regularly benchmarks amongst its customers the performance of itself and its subsidiaries, including the Company, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience. The Directors ensure the Company plays an active part in LBG's wider customer ambitions, as acknowledged in the Company's strategy, which during the course of the year has included the ongoing development of market leading digital propositions, more personalised customer propositions and better experience for customers across all channels.

Shareholders

The Company is a wholly owned subsidiary of LBG, forming part of LBG's Insurance division. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where appropriate to those of LBG, ensuring that the interests of LBG as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic Report within the LBG Annual Report and Accounts for 2019, available on the LBG website.

Communities and the environment

The Directors acknowledge that the Company, as part of one of the largest retail and commercial banks in the UK, has responsibilities to invest in the communities in which it operates, to help them prosper economically, build social cohesion and tackle disadvantage. The Directors' ensure the Company plays an appropriate role in LBG's related Helping Britain Prosper Plan. Further information in respect of the LBG approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the LBG Annual Report and Accounts for 2019. Additional information on LBG's Helping Britain Prosper Plan is available on the LBG website.

The Responsible Business Committee of the Board of LBG is responsible for overseeing LBG's performance, including that of the Company, as a Responsible Business, by providing oversight of and support for LBG's strategy and plans for embedding responsible business as part of both LBG's and the Company's purpose to Help Britain Prosper. Priorities during the year have included ongoing focus on three key areas aligned to LBG's Bank of the Future strategy. These included consideration of the progress of the Lloyds Bank Academy and the external initiative 'future.now', both designed to boost digital skills in the UK. Progress against agreed sustainability strategy was considered, where consistent progress was made in achieving targets such as providing support for the EV1000 electric vehicles initiative. Consideration was also given to the relationship between LBG and its charitable foundations, in particular the work they do in the communities in which LBG and the Company operate.

STRATEGIC REPORT (CONTINUED)

Further information in respect of the work of LBG's Responsible Business Committee is included within the Corporate Governance Report within the LBG Annual Report and Accounts for 2019, available on the LBG website.

Suppliers

The Company's approach to supplier management is part of that of LBG, which works with around 3,100 active suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication. The Company and LBG seek to improve the experience of suppliers, with feedback regularly sought on related assurance processes to ensure continual improvement in the process. Suppliers are also encouraged to express their satisfaction or otherwise, and have access to LBG and the Company's whistleblowing service.

In 2019 LBG's supplier expenditure was £5.9 billion, with 95 per cent of third party suppliers being located in the UK. Importance is placed on having the right supplier framework to operate responsibly. LBG's Sourcing & Supply Chain Management Policy applies to all businesses, divisions, and subsidiaries of LBG, including the Company, with the Directors assuming ultimate responsibility for its application as relevant to the Company. This Policy has been designed to assist in managing the risk that may occur as a result of outsourcing services, and dealing with third party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and LBG to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Regulators

The Company and its Directors have a strong, open and transparent relationship with relevant regulators and other authorities, and liaise regularly both directly and as part of LBG to ensure the business is aligned to the evolving regulatory framework. Key areas of focus have included ensuring robust prudential standards and supervision arrangements in place, ensuring the fair treatment of customers, adapting to changes in regulatory requirements, recovery and resolution, and preparations for the UK's withdrawal from the EU.

The Board has received regular updates on regulatory interaction, providing a view of key areas of focus, alongside progress made addressing regulatory actions. During 2019 LBG colleagues had regular meetings with the regulators, representing the interests of the Company as required, in addition to the Financial Conduct Authority and Prudential Regulation Authority's annual attendance at the Board. Engagement continues with the regulators through proactive meetings to discuss various key themes such as achieving a customer centric culture, transformation and change, operational and financial resilience and credit risk. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of LBG, including that of the Company, to managing regulatory change is discussed further on page 11 of the LBG Annual Report and Accounts for 2019, available on the LBG website.

On behalf of the Board of Directors

S W Lowther
Director
17 April 2020

DIRECTORS' REPORT

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

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

Results and dividend

The result of the Company for the year ended 31 December 2019 is a loss before tax of £4.2m (2018: £6.3m).

The loss for the year has reduced as a result of the increase in contribution from the savings business, following the Zurich workplace savings business acquisition in April 2018. Assets under administration on the Corporate Savings Platform for which the Company receives a fund based charge have increased by £14.3bn driven by internal transfers and market returns.

The total net assets of the Company at 31 December 2019 are £80.3m (2018: £83.2m).

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: £nil).

Post balance sheet events

Further information on post balance sheet events is set out in note 23.

Directors

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

G M Stewart	(resigned 22 August 2019)
C M Herd	(resigned 29 August 2019)
R A Messenger	(resigned 6 December 2019)
S C Guild	(resigned 6 December 2019)
N E T Prettejohn	(appointed 6 February 2020)
A Lorenzo	(appointed 5 March 2020)
J C S Hillman	(appointed 19 March 2020)

Particulars of the Directors' emoluments are given in note 20.

Directors' indemnities

Lloyds Banking Group has granted to the Directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of directors who joined 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 Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law.

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group. 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 auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Future developments

Details of future developments are provided in the Strategic Report.

DIRECTORS' REPORT (CONTINUED)

Employees

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

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

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

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

Independent auditors

PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Financial risk management

Disclosures relating to financial risk management are included in note 19 to the financial statements and are therefore incorporated into this report by reference.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Company's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They 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.

DIRECTORS' REPORT (CONTINUED)

Statement of Directors' responsibilities (continued)

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 IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Strategic Report on pages 4 to 7, and the Directors' Report on pages 8 to 10, includes 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

S W Lowther
Director
17 April 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH WIDOWS ADMINISTRATION SERVICES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Scottish Widows Administration Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH WIDOWS ADMINISTRATION SERVICES LIMITED (CONTINUED)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Neil Riches

Neil Riches (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
17 April 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Revenue	3	22,485	14,621
Operating expenses	4	(27,131)	(21,220)
Operating loss		(4,646)	(6,599)
Investment income	6	421	280
Loss before tax		(4,225)	(6,319)
Taxation	7	1,261	919
Loss for the financial year		(2,964)	(5,400)

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

The notes set out on pages 17 to 36 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
ASSETS			
Intangible assets	8	35,676	36,306
Investment in subsidiary undertakings	9	-	-
Financial assets:			
Trade and other receivables	10	12,585	8,965
Accrued income and prepayments	11	966	2,075
Current tax assets	15	745	591
Cash and cash equivalents	12	38,578	57,065
Total assets		88,550	105,002
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's equity shareholder			
Called up share capital	13	98,500	98,500
Other reserves	14	44,000	44,000
Accumulated losses		(62,236)	(59,272)
Total equity		80,264	83,228
Liabilities			
Deferred tax liabilities	15	875	930
Financial liabilities:			
Trade and other payables	16	6,549	18,939
Accruals and deferred income	17	862	1,905
Total liabilities		8,286	21,774
Total equity and liabilities		88,550	105,002

The notes are set out on pages 17 to 36 are an integral part of these financial statements.

The financial statements on pages 13 to 36 were approved by the Board on 17 April 2020, and signed on its behalf by

S W Lowther
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Loss before tax		(4,225)	(6,319)
Adjusted for:			
Amortisation of intangible assets	8	3,853	2,421
Investment income	6	(421)	(280)
Net movement in operating assets and liabilities	18	(11,341)	(4,114)
Taxation received		1,052	170
Net cash flows used in operating activities		(11,082)	(8,122)
Cash flows from investing activities			
Cash outflow from business combination, net of cash acquired	24	(4,603)	(26,350)
Addition of intangible assets	8	(3,223)	(6,079)
Investment income	6	421	280
Net cash flows used in investing activities		(7,405)	(32,149)
Cash flows from financing activities			
Issue of new share capital	13	-	75,000
Net cash flows generated from financing activities		-	75,000
Net movement in cash and cash equivalents		(18,487)	34,729
Cash and cash equivalents at the beginning of the year		57,065	22,336
Cash and cash equivalents at the end of the year	12	38,578	57,065

The notes set out on pages 17 to 36 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Called up share capital £000	Other reserves £000	Accumulated losses £000	Total equity £000
Balance as at 1 January 2018		23,500	44,000	(53,872)	13,628
Issue of share capital		75,000	-	-	75,000
Loss for the year and total comprehensive loss		-	-	(5,400)	(5,400)
Balance as at 31 December 2018 and 1 January 2019		98,500	44,000	(59,272)	83,228
Loss for the year and total comprehensive loss		-	-	(2,964)	(2,964)
Balance as at 31 December 2019		98,500	44,000	(62,236)	80,264

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 19 c) 4).

The notes set out on pages 17 to 36 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 IFRSs issued by the International Accounting Standards Board and the Standards and Interpretations (SICs) and International Financial Reporting Interpretations issued by its IFRS Interpretations Committee (IFRS IC), as endorsed by the European Union;

(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 certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies.

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

In accordance with IAS 1 "Presentation of Financial Statements", assets and liabilities in the balance sheet are presented in 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 LBG, registered in the United Kingdom, the Company has taken advantage of the exemption under Section 400 of the Companies Act 2006 and has not produced consolidated financial statements.

(b) Financial assets and financial liabilities

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

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

The Company initially recognises 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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(c) Fair value methodology

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

(i) Level 1

Valued using quoted prices 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 ongoing basis.

(ii) Level 2

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

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

(iii) Level 3

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

Transfers between different levels of the fair value hierarchy are deemed to have occurred at the next reporting date after the change in circumstances that caused the transfer.

Further information of the Company's assets and liabilities held at fair value is set out in note 19 c) 1).

(d) Revenue recognition

Revenue

Revenue, which arose wholly in the United Kingdom, represents the following:
- Pension contract administration:
  - Insurance related services provided by the Company, acting as an intermediary between the insurer and the insured; and
  - Administration costs charged to external customers of final salary pension schemes.
- Stock lending: Share of revenue made from stock lending operations.
- Fund based charges to policyholders and related parties for business administered on the Corporate Savings Platform.

Revenue is recognised in the statement of comprehensive income as these services are provided.

Investment income

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

(e) Expense recognition

Operating expenses

Administration costs are recognised in the statement of comprehensive income as accrued, within operating expenses.

Also included within operating expenses are amortisation on intangible assets and costs incurred in acquiring and developing the Corporate Savings Business.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(f) Intangible assets

(i) Corporate Savings Platform

The Corporate Savings Platform intangible asset arising on the acquisition of the UK saving business of Zurich was initially measured at fair value at the time of acquisition and is subsequently held at that fair value less accumulated amortisation. The initial fair value was determined using the replacement cost method at the time of acquisition. Any additional enhancements to the system are capitalised under software development costs, as set out at policy (f) (ii).

The asset is amortised using the straight-line method over its expected useful lives (7 years). The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the asset is tested for impairment at each reporting date. Further information on the Company's impairment policy is set out at policy (k).

(ii) Software development costs

Costs that are directly associated with the development of platform software controlled by the Company, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development team's employee costs, other relevant resource costs required to develop the platform software and bring the platform into use, and an appropriate portion of relevant overheads. All other costs associated with software maintenance are recognised through the statement of comprehensive income as the expense is incurred, within operating expenses.

Software development costs recognised as assets are valued at cost. Once brought into use, the assets are amortised using the straight-line method over their expected useful lives (7 years). Subsequent expenditure is only capitalised when it increases the expected future economic benefits of the specific asset to which it relates. The amortisation charge for the year in respect of software is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the assets is tested for impairment at each reporting date. Further information on the Company's impairment policy is set out at policy (k).

(iii) Acquired value of in-force business

Investment contracts acquired in business combinations are initially measured at fair value at the time of acquisition and subsequently held at fair value less accumulated amortisation and impairment. The initial fair value includes the recognition of an acquired value of in-force (acquired VIF) asset which reflects the present value of future cash flows expected from the business acquired. The asset is shown gross of attributable tax and a corresponding deferred tax liability has been established.

Amortisation of the acquired VIF balance is amortised using the straight-line method over the estimated life of the contracts (20 years). The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the acquired VIF balance is tested for impairment at each reporting date or when there is an earlier indication of impairment (further information on the Company's impairment policy is set out at policy (k)). Such an asset is not recognised in respect of future profits on contracts written in the normal course of business.

(iv) Goodwill

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired. Where the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities of the acquired entity is greater than the cost of acquisition, the excess is recognised immediately in the statement of comprehensive income.

Goodwill is recognised as an asset at cost and is tested at least annually for impairment. If an impairment is identified the carrying value of the goodwill is written down immediately through the statement of comprehensive income and is not subsequently reversed. At the date of disposal of a subsidiary, the carrying value of attributable goodwill is included in the calculation of the profit or loss on disposal.

(g) Investment in subsidiary undertakings

The Company owns a subsidiary as set out in note 9. This subsidiary provides custody services for non-insured platform investments. This subsidiary is 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 (k).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(h) 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 (k).

(i) Accrued income and prepayments

Income receivable for services provided which have yet to be invoiced is accrued and recognised in the statement of comprehensive income as the service is provided.

Where income has been deferred in respect of services to be provided in future periods, associated expenses are prepaid and subsequently recognised in the statement of comprehensive income as the service is provided.

(j) 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.

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.

(k) Impairment

Financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses for financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(k) Impairment (continued)

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.

(l) Taxes

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

Current tax

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

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or 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.

(m) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(n) Trade and other payables

Trade and other payables other than contingent consideration arising on the acquisition of the UK savings business 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.

Included within the prior year trade and other payables is the contingent consideration arising on the acquisition of the UK savings business of Zurich, which was initially recognised at fair value and designated at initial recognition at fair value through profit and loss as it is managed and evaluated by the Directors on a fair value basis.

(o) Accruals and deferred income

Accruals relate to expenses incurred in the year but not yet paid.

Income received for services to be provided in future periods is deferred and recognised in the statement of comprehensive income as the service is provided.

2. Critical accounting estimates and judgements in applying accounting policies

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

(a) Intangible assets

Corporate Savings Platform

The initial fair value of the acquired Corporate Savings Platform was determined using the replacement cost method at the time of acquisition. The replacement cost was based on recent actual experience and industry benchmarking. The key assumptions in estimating the fair value were expected future benefits and cost savings and development required to make the platform fit for purpose. The value of the acquired Corporate Savings Platform has increased during the year due to transfers from software development costs.

Management apply judgement in assessing estimates of future benefits and development costs and potential cost savings. Management apply judgement in assessing the expected future economic benefits of assets in assessing criteria for recognition and impairment. Further information on these assets is given in note 8.

Software development costs

Software development costs recognised as assets are valued at cost and amortised using the straight-line method over their expected useful lives (7 years). Subsequent expenditure is only capitalised when it increases the expected future economic benefits of the specific asset to which it relates. The carrying value of the assets is tested for impairment at each reporting date as set out in note 1(k).

Management apply judgement in assessing which costs can be recognised. Management also apply judgement in assessing the expected future economic benefits of assets in assessing criteria for recognition and impairment. Further information on these assets is given in note 8.

Acquired value of in-force business

The fair value of the acquired VIF was calculated by projecting the future surpluses and other cash flows attributable arising from business written, excluding the value of future investment risk margins, discounted at an appropriate rate. The key assumptions used in estimating future surpluses related to lapse rates, expenses, future market movements and increments to existing business. The assumptions were determined on a best-estimate basis and, as above, were based on recent actual experience and industry information where appropriate. Amortisation of this balance and the related deferred tax is carried out on a best estimate basis over the estimated life of the contracts. The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of this asset is tested for impairment at each reporting date. Further information on this asset is given in note 8.

(b) Taxation

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. Revenue

	2019 £000	2018 £000
Income arising from oversight and administration activities:		
Pension contract administration	4,233	4,795
Oversight of stock lending	440	918
Savings business administration	17,812	8,908
Total	**22,485**	**14,621**

4. Operating expenses

	2019 £000	2018 £000
Expenses arising from oversight and administration activities:		
Pension contract administration	4,161	4,720
Oversight of stock lending	252	504
Savings business administration	11,396	8,754
Amortisation of intangible assets	3,853	2,421
Implementation costs	7,347	4,780
Other operating expenses	122	41
Total	**27,131**	**21,220**

5. Auditors' remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	23	15
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	151	145
Total	**174**	**160**

Audit fees are borne by another LBG entity and recharged to the Company.

6. Investment income

	2019 £000	2018 £000
Interest income on investments held through liquidity funds	421	280
Total	421	280

7. Taxation

(a) Analysis of credit for the year

	2019 £000	2018 £000
Current tax:		
UK corporation tax		
- Current tax on taxable loss for the year	745	590
- Adjustments in respect of prior years	461	289
Total current tax credit	**1,206**	**879**
UK deferred tax:		
- Origination and reversal of timing differences	54	40
- Adjustments in respect of prior years	1	-
Total deferred tax credit	**55**	**40**
Total income tax credit	**1,261**	**919**

Corporation Tax is calculated at a rate of 19.0% (2018: 19.0%) of the taxable loss for the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

7. Taxation (continued)

(b) Reconciliation of tax credit

A reconciliation of the credit that would result from applying the standard UK corporation tax rate to the loss before tax to the actual tax credit for the year is given below:

	2019 £000	2018 £000
Loss before tax	(4,225)	(6,319)
Tax at 19.0% (2018: 19.0%)	**803**	**1,201**
Effects of:		
Disallowed items	(4)	(571)
Adjustments in respect of prior year	462	289
Total	**1,261**	**919**

Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19.0% from 1 April 2020.

8. Intangible assets

	2019 £000	2018 £000
Acquired VIF	5,147	5,429
Goodwill	5,417	5,417
Corporate Savings Platform	24,212	18,421
Software development costs	900	7,039
Total	**35,676**	**36,306**

	Acquired VIF £000	Goodwill £000	Corporate Savings Platform £000	Software development costs £000	Total £000
Cost:					
At 1 January 2018	-	-	-	960	960
Arising on business combination	5,640	5,417	20,631	-	31,688
Additions	-	-	-	6,079	6,079
At 31 December 2018 and 1 January 2019	**5,640**	**5,417**	**20,631**	**7,039**	**38,727**
Additions	-	-	-	3,223	3,223
Transfers to capitalised software	-	-	9,362	(9,362)	-
At 31 December 2019	**5,640**	**5,417**	**29,993**	**900**	**41,950**
Accumulated amortisation:					
At 1 January 2018	-	-	-	-	-
Amortisation during the year	211	-	2,210	-	2,421
At 31 December 2018 and 1 January 2019	**211**	**-**	**2,210**	**-**	**2,421**
Amortisation during the year	282	-	3,571	-	3,853
At 31 December 2019	**493**	**-**	**5,781**	**-**	**6,274**
Carrying amount:					
At 31 December 2019	**5,147**	**5,417**	**24,212**	**900**	**35,676**
At 31 December 2018	5,429	5,417	18,421	7,039	36,306

Of the above total for Corporate Savings Platform, an estimated £19.9m (2018: £15.5m) is expected to be amortised more than one year after the reporting date. The remaining amortisation period is 5.71 years.

Of the above total for acquired VIF, an estimated £4.9m (2018: £5.1m) is expected to be amortised more than one year after the reporting date. The remaining amortisation period is 18 years.

As detailed below, £0.9m (2018: £7.0m) of software development costs is in the course of construction and therefore these assets not yet subject to amortisation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

8. Intangible assets (continued)

The movement during the financial year on assets in the course of construction included in software development costs was as follows:

	2019 £000	2018 £000
At 1 January	7,039	960
Additions	3,223	6,079
Transfers to capitalised software	(9,362)	-
Total	**900**	**7,039**

Significant Estimate: Key assumptions used for value-in-use calculations
A review of the carrying value of the intangible assets (including goodwill) to assess indications of impairment is performed on an annual basis. The recoverable amounts for 2018 and 2019 have both been calculated on a value in use basis.

Our value in use calculations require estimates in relation to uncertain items, including management's expectation of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate. Future cash flows used in the value in use calculations are based on our latest Insurance Board approved four-year financial plans. Expectations about future growth reflect the expectations of growth in the markets to which the intangible asset relates. A discount factor has been applied to underlying cash flows with an indefinite useful life, which aligns with the long term nature of the business in order to establish a net present value.

Management have projected cash flows using perpetuity growth rates, which aligns with the long term nature of business. The key assumptions used in the value in use calculation are as follows:

- Discount factor 8.43% (2018: 8.64%), based on LBG weighted average cost of capital.
- Assets under administration increase by an average compound growth rate of 7.6% each year over the 23 year forecast period. The growth rates have been benchmarked against external data for the relevant markets.
- Expenses increase by an average compound growth rate of 1.2% each year over the 23 year forecast period, in line with management's 4 year financial plan and long term expected inflation rates.
- Beyond the 23 year forecast period a long term cash flow growth rate of 1.82% has been applied, which is in line with long term expected pension market growth.

Significant Estimate: Impact of possible changes in key assumptions
The value in use exceeds the carrying value by approximately £176.3m. Any of the following changes in assumptions in isolation would cause the recoverable amount to equal its carrying amount:

- a reduction in the asset under administration compound growth rate in the 23 year forecast period from our 7.6% assumption to a revised assumption of a compound growth rate of 5.9%.
- an increase in the discount rate from our 8.43% assumption to a revised assumption of 16.2%; or
- shortfalls in trading performance against forecast resulting in operating cash flows decreasing by 83.1% each year.

9. Investment in subsidiary undertakings

The Company owns the whole of the ordinary share capital of £1 for the following subsidiary at the reporting date:

Name	Class of stock	Percentage held	Country of incorporation	Nature of business
Scottish Widows Administration Services (Nominees) Limited	Ordinary	100	England and Wales	Service Company

The registered address of the subsidiary is 15 Dalkeith Road, Edinburgh, EH16 5BU.

Scottish Widows Administration Services (Nominees) Limited (SWASNL) acts as a nominee company to hold legal title to assets beneficially owned by customers of the Company. SWASNL did not trade during 2019 (2018: did not trade).

10. Trade and other receivables

	2019 £000	2018 £000
Trade receivables	2,326	1,438
Amounts due from related parties	6,867	5,592
Other receivables	3,392	1,935
Total	**12,585**	**8,965**

All of the above balances are expected to be recovered within one year from the reporting date. None of the above balances are interest-bearing. Further information in respect of credit risk is given in note 19.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

11. Accrued income and prepayments

	2019 £000	2018 £000
Accrued income	268	1,119
Prepayments	698	956
Total	**966**	**2,075**

All of the above amounts are expected to be recovered within one year after the reporting date.

12. Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank	8,065	8,551
Investments held through liquidity funds	30,513	48,514
Total	**38,578**	**57,065**

Investments held through liquidity funds are used to optimise returns on surplus funds held by the Company. Further information in respect of credit risk in relation to cash and cash equivalents is given in note 19.

13. Called up share capital

	2019 £000	2018 £000
Allotted, called up and fully paid share capital:		
98,500,000 (2018: 98,500,000) ordinary shares of £1 each	98,500	98,500
	98,500	**98,500**

On 20 February 2018, the Company issued ordinary share capital of £75.0m to its parent, SWL. The issued share capital of the Company has increased to £98.5m.

14. Other reserves

	2019 £000	2018 £000
Other reserves	44,000	44,000
Total	**44,000**	**44,000**

Prior to 2000, when the Company was trading as Lloyds TSB Life Assurance Company Limited, the Company received a capital injection from a related company.

15. Tax assets and liabilities

	2019 £000	2018 £000
Current tax assets	745	591
Total tax assets	**745**	**591**
Deferred tax liabilities	875	930
Total deferred tax liabilities	**875**	**930**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

15. Tax assets and liabilities (continued)

(a) Recognised deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

The movement in the deferred tax liability is as follows:

	2019 £000	2018 £000
Brought forward	930	-
Additions		
- Deferred tax on acquired VIF	-	970
Credit for the year	(55)	(40)
Total	**875**	**930**

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

	2019 £000	2018 £000
Other temporary differences	55	40
Total	**55**	**40**

The deferred tax liability comprises:

	2019 £000	2018 £000
Other temporary differences	875	930
Total	**875**	**930**

Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19.0% from 1 April 2020.

Had this rate change been substantively enacted at 31 December 2019, the effect would have been to increase net deferred tax liabilities by £101k.

16. Trade and other payables

	2019 £000	2018 £000
Amounts due to group undertakings	4,651	11,166
Contingent consideration	-	4,603
Trade payables	-	2,259
Other payables	1,898	911
Total	**6,549**	**18,939**

All of the above amounts are expected to be settled within one year after the reporting date. None of the above balances are interest-bearing (2018: none). Further information in respect of liquidity risk is given in note 19.

17. Accruals and deferred income

	2019 £000	2018 £000
Accruals	164	949
Deferred income	698	956
Total	**862**	**1,905**

All of the above amounts are expected to be settled within one year after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18. Net movement in operating assets and liabilities

	2019 £000	2018 £000
Net movement in operating assets:		
Financial assets:		
IFRS 9 adjustment to opening reserves	-	(9)
Trade and other receivables	(3,620)	(7,468)
Accrued income and prepayments	1,109	(756)
Net increase in operating assets	**(2,511)**	**(8,233)**
Net movement in operating liabilities:		
Financial liabilities:		
Trade and other payables	(7,787)	3,465
Accruals and deferred income	(1,043)	654
Net (decrease)/increase in operating liabilities	**(8,830)**	**4,119**
Net movement in operating assets and liabilities	**(11,341)**	**(4,114)**

The movement in trade and other payables excludes changes in contingent consideration as this is not an operating liability.

19. Risk Management

The Company's principal activity is to act as a platform operator and as a manager for ISAs, Investment Accounts and SIPPs in the United Kingdom. The Company also provides outsourcing and administration services as well as carrying out oversight of the securities lending programme for companies within the Insurance Division.

This note summarises the risks associated with the activities of the Company and the way in which the Company managed them during the year.

(a) Governance framework

The Company is part of LBG, which has established a risk management function with responsibility for implementing the LBG risk management framework within the Company.

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Company is exposed to, with risks categorised according to an approved LBG risk language. This covers the principal risks faced by the Company, including the exposures to market, credit, liquidity, capital, regulatory and legal, conduct, governance and operational risks. The performance of the Company and the strategic management of the business depend on its ability to manage these risks.

Responsibility for setting and managing risk appetite and risk policy resides with the Board. The Board manages risks in line with LBG and Insurance Division risk policies. The operational implementation of risk appetite statements is assigned to Insurance Executive committees, in particular Insurance and Wealth Risk Committee (IWRC) and Insurance and Wealth Asset Liability Committee (IWALCO).

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

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

(b) Risk appetite

Risk appetite is the amount and type of risk that the Insurance and Company Boards prefer, accept or wish to avoid, and is aligned to Insurance and LBG strategy. The Insurance Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks (capital, credit, market and liquidity), operational risks, conduct risks, regulatory and legal risks and governance risks. The risk appetite statements set limits for exposures to the key risks faced by the business.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk Management (continued)

(c) Financial risks

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

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

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

The timing of the unwind of the deferred tax liabilities is dependent on the timing of the unwind of the temporary timing differences, arising between the tax bases of the 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.

1) Market risk

Market risk is defined as the risk that our capital or earnings profile is affected by adverse unfavourable market rates, in particular equity and credit spreads in Insurance business.

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

All of the financial assets of the Company which are measured at fair value, which relate to investments in liquidity funds of £30.5m (2018: £48.5m), are classified in Level 1 of the fair value hierarchy (as defined in note 1 (c)).

The table below shows movements in the assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only).

	2019		2018	
	£m	£m	£m	£m
	Assets	*Liabilities*	*Assets*	*Liabilities*
Balance at 1 January	-	(4,603)	-	-
Contingent consideration due	-	-	-	(8,353)
Contingent consideration paid	-	4,603	-	3,750
Balance at 31 December	-	-	-	(4,603)

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 fund based 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 10.0%, fund based charges are estimated to fall by £1.8m (2018: £1.3m) based on year end values. These are classified as indirect market risks.

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 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 loss after tax and equity for the year	
	2019	2018
	£000	£000
25 basis points (2018: 25 basis points) increase in yield curves	(128)	(105)
25 basis points (2018: 25 basis points) decrease in yield curves	128	105

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk Management (continued)

(c) Financial risks (continued)

2) Credit risk

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

Credit risk is managed in line with the Insurance Credit Risk Policy and the wider LBG 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 cash equivalents. 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 not impaired:

	2019 £000	2018 £000
Trade and other receivables	12,585	8,965
Cash and cash equivalents	38,578	57,065
Total assets bearing credit risk	**51,163**	**66,030**

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

As at 31 December 2019	**Total £000**	**AAA £000**	**AA £000**	**A £000**	**Not rated £000**
Stage 1 assets					
Trade and other receivables	12,661	-	-	6,867	5,794
Cash and cash equivalents	8,065	-	-	8,065	-
Loss allowance	(76)	-	-	-	(76)
Exposure to credit risk	**20,650**	**-**	**-**	**14,932**	**5,718**
Assets at fair value through profit and loss					
Cash and cash equivalents	30,513	30,513	-	-	-
Total	**51,163**	**30,513**	**-**	**14,932**	**5,718**

As at 31 December 2018	**Total £000**	**AAA £000**	**AA £000**	**A £000**	**Not rated £000**
Stage 1 assets					
Trade and other receivables	8,980	-	-	5,592	3,388
Cash and cash equivalents	8,551	-	-	8,551	-
Loss allowance	(15)	-	-	-	(15)
Exposure to credit risk	**17,516**	**-**	**-**	**14,143**	**3,373**
Assets at fair value through profit and loss					
Cash and cash equivalents	48,514	48,514	-	-	-
Total	**66,030**	**48,514**	**-**	**14,143**	**3,373**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk Management (continued)

(c) *Financial risks (continued)*

2) Credit risk (continued)

Exposure to credit risk is concentrated across counterparties as follows:

	2019 Total £000	2018 Total £000
Trade and other receivables:		
Amounts due from group undertakings	6,867	5,592
Amounts due from HMRC	2,095	1,935
Other receivables	3,623	1,438
Cash and cash equivalents		
Amounts due from group undertakings	505	498
Other cash and cash equivalents	38,073	56,567
Total	**51,163**	**66,030**

3) Liquidity risk

Liquidity risk is defined as the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost.

Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from the inability to generate cash inflows as anticipated.

Liquidity risk is managed in line with the Insurance Liquidity Risk Policy and the wider LBG Funding and Liquidity Policy.

The following tables indicate the timing of the contractual cash flows arising from the Company's financial liabilities:

As at 31 December 2019	**Contractual cash flows (undiscounted)**		
Liabilities	**Carrying amount £000**	**No stated maturity £000**	**Less than 1 month £000**
Trade and other payables	6,549	-	6,549
Accruals	164	-	164
Total	**6,713**	**-**	**6,713**

As at 31 December 2018	**Contractual cash flows (undiscounted)**		
Liabilities	**Carrying amount £000**	**No stated maturity £000**	**Less than 1 month £000**
Trade and other payables	18,939	4,603	14,336
Accruals	949	-	949
Total	**19,888**	**4,603**	**15,285**

Included in balances as at 31 December 2018 with no stated maturity is £4.6m contingent consideration, which was paid during 2019 following Zurich maintaining existing contractual relationships.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk Management (continued)

(c) Financial risks (continued)

4) Capital risk

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

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

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

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

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

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; and
- when capital is needed, to require an adequate return to the shareholder by pricing contracts according to the level of risk associated with the business written.

The Company has entered into a capital support arrangement with its parent, SWL in order to mitigate risks.

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 held at 31 December in each year for the Company. The current year information is an estimate of the final result:

	2019 £000	2018 £000
Regulatory capital held	45,463	47,852
Regulatory capital required	4,940	1,781

All minimum regulatory requirements were met during the year.

(d) Non-Financial Risks

The Company faces a variety of non-financial risks through its operations and service provision. The Company manages these risks by following the embedded Risk Management Framework, which uses methodologies and systems consistent with those implemented across LBG. The risk landscape is monitored and adjustments, including those needed as a result of the Coronavirus outbreak, are made as identified through the continuous application of this framework.

The various stages of the framework are:

Identification

- Risks identified in products, processes, channels, customers and people
- Emerging risks
- Changes to the risk profile through ongoing tracking, pricing reviews and monitoring of external factors
- Change Management at project, programme or portfolio level
- Implement Risk and Control Framework and standards, including loss estimation and provisioning

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk Management (continued)

(d) Non-Financial Risk (continued)

Measurement
- Evaluate risk exposure vs appetite
- Modelling and stress testing
- Actual vs expected losses
- Scenario analysis

Management
- Identify and operate controls
- Perform day-to-day control activities
- Ensure appropriate segregation of duties
- Control assessment and estimation of residual risk
- Controls testing activities including Sarbanes-Oxley
- Effectiveness reviews

Monitoring
- Performance vs risk appetite
- Risk metrics on for example products, processes, customer experience, service, retention
- Change portfolio
- Regulatory and external environment
- Quality checking
- Action management

Reporting
- Material Events escalation, including related actions

The primary non-financial risk categories are:

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.

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

Model risk
The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of Models and Ratings systems.

Operational risk
Operational risk is defined as the risk of loss from inadequate or failed internal processes, people and systems or from external events. As operational risk covers such a range of elements, there are secondary risk types within this area, including:

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

Cyber and information security
The risk of financial loss, disruption or damage to the reputation of Lloyds Banking Group from a malicious attack that impacts the confidentiality and/or integrity of electronic data or the availability of systems. The risk also to the security of information and data.

Data management
The risk that the Group fails to effectively govern, manage and protect its data (or the data shared with Third Party Suppliers) impacting the Group's agility, accuracy, access and availability of data, ultimately leading to poor customer outcomes, loss of value to the Group and mistrust from regulators.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk Management (continued)

(d) Non-Financial risks (continued)

External service provision
Failure in the provision of the formally agreed services (i.e. within the scope for the Group Service Provision Policy / supporting Procedures) which are required so Business Units meet their agreed deliverables.

Financial crime
Financial crime is the risk of acts intended to bribe, corrupt, launder money, fund terrorist activity or circumvent sanctions intended for personal gain or to cause loss to another party, by customers/clients, suppliers, third parties or colleagues.

Financial reporting risk
Financial reporting risk is defined as the risk that the Group suffers reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over business or finance processes impacting financial, prudential regulatory, and tax reporting, failure to manage the associated risks of changes in taxation rates, law, corporate ownership or structure and the failure to disclose timely and appropriate information in accordance with regulatory requirements.

Fraud
The risk of acts of deception or omission intended for personal gain or to cause loss to another party, by customers/clients, third parties or colleagues.

Internal service provision
The risk associated with the management of internal service arrangements.

IT systems
The risk of failure in technology governance and the development, delivery and maintenance of effective IT solutions.

Operational resilience risk
Operational resilience risk covers the risk that the Group fails to design resilience into business operations, underlying infrastructure and controls (people, process, technical) so that it is able to withstand external or internal events which could impact the continuation of operations, and fails to respond in a way which meets stakeholder expectations and needs when the continuity of operations is compromised.

Physical security risk
The risk to the security of people and property (including damage (malicious or non-malicious) to LBG branches and buildings managed through Group Property).

Sourcing
Sourcing risk covers the risk associated with the activity related to the agreement and management of services provided by third parties including outsourcing (excludes internal service arrangements).

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

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

(e) UK political uncertainties including EU exit

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including the financial services sector. The continued lack of clarity over the UK's eventual relationship with the EU and other foreign countries, and ongoing challenges in the Eurozone, including weak growth raises additional uncertainty for the UK economic outlook. The Company's response to these risks and uncertainty is as follows:

- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts
- As part of LBG, engagement with politicians, officials, media, trade and other bodies to reassure our commitment to Helping Britain Prosper
- No deal EU exit outcome analysed to identify impacts and assess robustness of contingency plans

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk Management (continued)

(f) Economic risk

UK economic growth remains muted and the lack of clarity around an EU trade deal is likely to keep investment subdued. High levels of credit market liquidity have reduced spreads and weakened terms in some sectors, creating a potential under-pricing of risk and heightened risk of a market correction. LBG's response to these risks is as follows:

- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts, with a plan specifically for working through the potential impacts of the EU exit on LBG
- Wide array of risks considered in setting strategic plans
- Capital and liquidity are reviewed regularly through committees, ensuring compliance with risk appetite and regulatory requirements
- LBG has a robust through the cycle credit risk appetite, including individual limit guidelines, specific sector appetite statements and policies, and affordability and indebtedness controls at origination. In addition to ongoing focused monitoring, we conduct portfolio deep dives and larger exposure reviews. We have enhanced our use of early warning indicators including sector specific indicators

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Whilst the ultimate impact is currently unknown, we are exploring the credit risk impact.

20. Related party transactions

Ultimate parent and shareholding

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

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

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

Transactions between the Company and other LBG companies

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

	2019			
	Income during period £000	Expenses during period £000	Payable at period end £000	Receivable at period end £000
Relationship				
Parent	3,095	-	-	5,792
Other related parties	-	22,738	4,651	1,580

	2018			
	Income during period £000	Expenses during period £000	Payable at period end £000	Receivable at period end £000
Relationship				
Parent	-	-	-	4,441
Other related parties	-	18,160	11,166	1,649

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 Directors consider that they receive no remuneration for their services to the Company (2018: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

21. Future accounting developments

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

22. Contingent liabilities and capital commitments

The outsourcing contract signed with Jardine Lloyd Thompson (JLT) on 30 November 2017 provides for certain future payments which are contingent on contractual milestones being achieved. £25k (2018: £114k) of these future payments may be expensed by the Company as incurred in future periods. This expense will be recharged to SWL in line with the contractual arrangements.

23. Post balance sheet events

Since the balance sheet date there has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across world, including the UK.

The Directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the Directors are unable to estimate its financial and other effects, however it is probable that the growth of assets under administration will be curtailed in the near future. This may potentially lead to an impairment of intangible assets (note 8). For further details on the potential impact please refer to the sensitivity analysis for intangible assets (note 8).

24. Business combination

Summary of acquisition

On 3 April 2018, the Company acquired the UK savings business from Zurich, taking on £6.0bn of assets under administration held on the Corporate Savings Platform.

Details of the purchase consideration are as follows:

	2019 £000	2018 £000
Initial consideration paid	-	22,600
Contingent consideration paid	4,603	3,750
Total purchase consideration	**4,603**	**26,350**