SCOTTISH WIDOWS UNIT TRUST MANAGERS LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2012

Member of Lloyds Banking Group plc

CONTENTS

Company Information	3
Directors' Report	4-5
Independent Auditors' Report to the Member of Scottish Widows Unit Trust Managers Limited	6
Statement of Comprehensive Income for the year ended 31 December 2012	7
Balance Sheet as at 31 December 2012	8
Statement of Cash Flows for the year ended 31 December 2012	9
Statement of Changes in Equity for the year ended 31 December 2012	10
Notes to the Financial Statements for the year ended 31 December 2012	11-29

COMPANY INFORMATION

Board of Directors

A N Davis
R W Fletcher
N L N Machray
T E Strauss

Company Secretary

T C Nicholls

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Erskine House
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Edinburgh
EH2 4NH

Registered Office

Charlton Place
Andover
Hampshire
SP10 1RE

Company Number

1629925

DIRECTORS' REPORT

Principal activities and review of the business

The Directors present the audited financial statements of Scottish Widows Unit Trust Managers Limited ('the Company), a limited liability company domiciled and incorporated in the United Kingdom The principal activity of the Company is to act as the Authorised Corporate Director for the management of individual savings accounts ("ISAs'), personal equity plans ('PEPs') and Open Ended Investment Company (OEIC') sub funds

The Company is a wholly owned subsidiary of Scottish Widows plc ("SW') The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc ("LBG")

Transfer of assets

In November 2012 the Company was involved in a project with SW and fellow subsidiaries to transfer approximately £9bn of policyholder assets into the Company's OEIC sub funds on an in-specie basis This transfer does not impact the Company's profit, but resulted in an increase in funds under management of approximately £9bn Further transactions are expected to be made in 2013, but cannot be quantified at this stage

Retail Distribution Review

The Retail Distribution Review ("RDR") is an FSA initiative designed to increase consumer confidence in the advice they are given on investments and pensions, and came into effect on 1 January 2013 Financial advisers will meet higher standards of qualifications and agree charges for investment advice directly with the customer, instead of being paid by commission from the charges on investment products bought from the Group There remains significant uncertainty regarding market and consumer behaviour which will only become clearer following implementation

Results and dividend

The result of the Company for the year ended 31 December 2012 is a profit after tax of £37 3m (2011 £39 9m profit) and this has been transferred to reserves

An interim dividend of £140m (2011 £nil) was paid during the year The Directors do not recommend the payment of a further dividend (2011 nil)

Key performance indicators

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future Further information on the capital position of the Company is given in note 23

The Company's Funds under management are approximately £34 6bn (2011 £22 9bn) Revenue from unit dealing and investment management fees was £146m (2011 £153m)

The Directors consider that the above key performance indicators are appropriate to the principal activity of the Company In addition, the Directors are of the opinion that the Financial Services Authority s (FSA) returns' capital resource requirement information, 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

The Company also forms part of the Lloyds Banking Group plc ("LBG") The development, performance and position of the Scottish Widows group are discussed in LBG's financial statements, which does not form part of this report

Future outlook

The Directors consider that the Company's activities will continue unchanged in the foreseeable future

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks The financial risk management objectives and policies of the Company and the exposure to market, credit interest rate and financial soundness, liquidity and operational risk are set out in note 23

In addition, the Company is also exposed to financial and prudential regulatory reporting risk, in particular the risk of reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting or over prudential regulatory reporting and financial reporting fraud The financial and risk management objectives and policies of the Company in respect of financial and prudential regulatory reporting risk are also set out in note 23

DIRECTORS' REPORT

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

P Penney	(resigned 31 August 2012)
A N Davis	(appointed 30 December 2012)

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

All directors have the benefit of a contract of indemnity, which is both a Qualifying Third Party Indemnity Provision and a Qualifying Pension Scheme Indemnity Provision This was in force during the whole of the year Directors no longer in office but who served on the Board at any time in the year had the benefit of this contract of indemnity during that period of service

Disclosure of information to auditors

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the 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 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

On behalf of the Board of Directors

Neil Machray

N L N Machray
Director
18 March 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH WIDOWS UNIT TRUST MANAGERS LIMITED

We have audited the financial statements of Scottish Widows Unit Trust Managers Limited for the year ended 31 December 2012 which comprise the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the Directors' report and financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Karyn Lamont

Karyn Lamont (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

18 March 2013

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Revenue	3	145,616	152 779
Distribution and selling costs	4	(47,252)	(54,438)
Gross profit		98,364	98 341
Investment income	5	851	1,157
Net fair value gains on financial instruments at fair value through profit or loss	6	645	753
Other operating income	7	15,409	13,391
Administrative expenses	8	(65,750)	(59,265)
Finance costs	10	(110)	(40)
Profit before tax		49,409	54 337
Taxation charge	11	(12,105)	(14,398)
Profit after tax		37,304	39,939

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

All activities are continuing

The notes set out on pages 11 to 29 are an integral part of these financial statements

BALANCE SHEET AS AT 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
ASSETS			
Non-current assets			
Deferred origination costs	12	38,848	38,225
Current assets			
Deferred origination costs	12	12,639	23,603
Financial assets			
Financial assets at fair value through profit or loss	13	6,027	5,386
Trade and other receivables	14	62,479	42,596
Cash and cash equivalents	16	139,815	201,082
Total assets		259,808	310,892
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's shareholder			
Share capital	17	50	50
Retained earnings		54,814	157,510
Total equity		54,864	157,560
Liabilities			
Non-current liabilities			
Deferred income	18	53,544	51,932
Current liabilities			
Deferred income	18	17,262	32,599
Current income tax liability	15	26,592	14,487
Financial liabilities			
Trade and other payables	20	90,285	47,372
Borrowings	16	16,883	3,808
Provisions	19	378	3,134
Total liabilities		204,944	153,332
Total liabilities and shareholders' equity		259,808	310,892

The notes set out on pages 11 to 29 are an integral part of these financial statements

Approved by the Board on 18 March 2013

Neil Machray

N L N Machray
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Cash flows from operating activities			
Profit before tax		49,409	54,337
Net decrease in operating assets and liabilities	21	19,634	7,118
Taxation paid		-	(37,036)
Net decrease in deferred origination costs	12	10,341	10 831
Net decrease in deferred income	18	(13,726)	(15,192)
Finance costs		109	40
Net cash flow generated from operating activities		65,767	20,098
Cash flows from financing activities			
Dividends paid	22	(140,000)	-
Finance costs		(109)	(40)
Net cash used in financing activities		(140,109)	(40)
Net (decrease)/increase in cash and cash equivalents		(74,342)	20,058
Cash and cash equivalents at the beginning of the year		197,274	177 216
Net cash and cash equivalents at the end of the year	16	122,932	197 274

The notes set out on pages 11 to 29 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Share capital £000	Retained earnings £000	Total £000
Balance as at 1 January 2011		50	117,571	117,621
Profit for the year and total comprehensive income		-	39,939	39,939
Balance as at 31 December 2011		50	157,510	157,560
Dividends paid	22	-	(140,000)	(140,000)
Profit for the year and total comprehensive income		-	37,304	37,304
Balance as at 31 December 2012		50	54,814	54,864

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

The notes set out on pages 11 to 29 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 International Financial Reporting Standards (' IFRSs') issued by the International Accounting Standards Board and the Standards and Interpretations (' SICs") and International Financial Reporting Interpretations (' IFRICs") issued by its International Financial Reporting Interpretations Committee, as endorsed by the European Union,

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

(3) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities, as set out in the relevant accounting policies

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

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

Standards and interpretations effective in 2012

A number of standards, amendments to and interpretations of published standards which have the potential to impact on the Company's operations have been issued and are mandatory for accounting periods beginning on or after 1 January 2012 Their relevance to the Company's operations is assessed at note 25

Details of standards and interpretations in issue but which have not been adopted early are set out at note 26

(b) Revenue recognition

Revenue

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

- Net fee income from the sale of shares in OEIC sub funds and other similar fees
- Net fee remuneration from the management of shares in OEIC sub funds

These fees are recognised as revenue in the statement of comprehensive income in the period in which the services are provided unless they relate to services to be provided in future periods If the fees are for services to be provided in future periods, these are deferred and recognised in the statement of comprehensive income as revenue as the service is provided

Investment income

All income from interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues

Other operating income

Other operating income, which arose wholly in the United Kingdom, includes registration fees and other similar fees The fees are recognised in the statement of comprehensive income as they accrue

(c) Expense recognition

Distribution and selling costs

Distribution and selling costs consist of commission paid to acquire new business Commission and other acquisition costs in relation to securing new business are capitalised as deferred origination costs and amortised as the related revenue is recognised (note 12) The movement in the deferred origination cost asset has been included within distribution and selling costs Stamp Duty payable on acquisitions is also included within the distribution and selling costs

Administrative expenses

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

Finance costs

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

1 Accounting policies (continued)

(d) Deferred origination costs

The costs of commission paid to acquire new business incurred during a financial period but which relate to subsequent financial periods are deferred to the extent that they are recoverable out of future revenue margins This asset is subsequently amortised over the estimated contractual lifetime of each holding on a straight-line basis unless there is evidence to support an alternative recognition basis Where an alternative recognition basis is applied, this is calculated by reference to experience information in respect of the period over which income from contracts is earned The amortisation charge for the year is recognised through the statement of comprehensive income, within distribution and selling costs The carrying value of the asset is tested for impairment at each reporting date Deferred origination costs are split between current and non-current Current deferred costs run off within the next 12 months and non-current in more than 12 months The deferred origination costs have a finite life and run off over varying periods based on the expectation of various products Further information on the Company s impairment policy is set out at policy (h)

(e) Financial assets and financial liabilities

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires

All financial assets and financial liabilities are designated at fair value through profit or loss, with the exception of trade and other receivables, borrowings and trade and other payables which are stated at amortised cost (as described in policies (f), (l), and (m)) The classification depends on the purpose for which the financial assets and financial liabilities were acquired

The Company's management, through a Fair Value Pricing Committee review information on the fair value of the Company s financial assets and financial liabilities and the sensitivities to these values on a regular basis

No assets are classified as held-to-maturity or available-for-sale

Transaction costs incidental to the acquisition of a financial asset are expensed through the statement of comprehensive income within net fair value gains and losses on financial instruments 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 and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

Fair value methodology

All financial instruments carried at fair value are categorised into a 'fair value hierarchy" as follows

(i) Level 1

Quoted prices (unadjusted) in active markets for identical assets and liabilities to those being valued An active market is one in which arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis Examples include listed equities, listed debt securities, daily priced unit trusts and OEICs traded in active markets and exchange traded derivatives such as futures

(ii) Level 2

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

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

Examples of these are securities measured using discounted cash flow models based on market observable swap yields and listed debt or equity securities in a market that is inactive

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

1. Accounting policies (continued)

(iii) Level 3

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

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

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

(f) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and that are not designated as fair value through profit or loss at initial recognition

Trade and other receivables are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment, with the exception of accrued interest, which is accounted for at fair value, reflecting the amounts receivable at the year end 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 receivables

A charge for impairment in respect of trade and other receivables would be made in the statement of comprehensive income where there is objective evidence that the Company will not be able to collect all amounts due according to their original terms The impairment charge would be recognised in that part of the statement of comprehensive income in which the original transaction was reported Further information on the Company's impairment policy is set out at policy (h)

(g) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank short term highly liquid investments with original maturities of three months or less and bank overdrafts where a legal right of set off exists

(h) Impairment

Financial assets

The carrying value of all financial assets held at amortised cost is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable fair prices and expected net selling prices

In order to determine whether financial assets are impaired, all financial assets for which the fair value has fallen below the carrying value (assessed using cost price and the factors above), either by a significant amount or for a prolonged period of time are individually reviewed

A distinction is made between negative revaluations due to general market fluctuations and due to issuer-specific developments The impairment review focuses on issuer-specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Company's long term investment strategy

Non-financial assets

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

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

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the relevant line in the statement of comprehensive income in the period in which it occurs

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

1 Accounting policies (continued)

Impairment process

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events

(i) significant financial difficulty of the issuer or debtor,
(ii) a breach of contract
(iii) the disappearance of an active market for that asset because of financial difficulties or
(iv) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including
- adverse changes in the payment status of issuers or debtors, or
- national or local economic conditions that correlate with defaults on the assets in the Company

The Company first assesses whether objective evidence of impairment exists individually for assets that are individually significant If the Company determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of assets with similar credit risk characteristics and collectively assesses them for impairment Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment

(i) Taxes

Tax on the profit or loss for the year is recognised in the statement of comprehensive income within taxation and comprises current and deferred tax

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates and legislation enacted or substantively enacted at the reporting date, together with adjustments to estimates made in prior years

(j) Share capital

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

Dividends payable

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

(k) Deferred income

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

These services comprise an indeterminate number of acts over the estimated lives of the individual contracts and, therefore, the Company defers these fees and recognises them on a straight-line basis over the estimated lives of the contracts unless there is evidence to support an alternative recognition basis

Where an alternative recognition basis is applied, this is calculated by reference to experience information in respect of the period over which income from contracts is earned The income is recognised through the statement of comprehensive income, within revenue The liability is recognised in the balance sheet within deferred income until recognised

(l) Borrowings

Borrowings are recognised initially at fair value being the issue proceeds net of transaction costs incurred Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income through finance costs over the period of the borrowings using the effective interest rate applicable to the instrument In practice, due to the nature of these balances, being bank overdrafts, the carrying value equates to the fair value of these liabilities as the borrowings are repayable on demand

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

1 Accounting policies (continued)

(m) Trade and other payables

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

(n) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events when it is probable that the obligation will result in an outflow of resources to settle the obligation and when a reliable estimate of the amount of the obligation can be made

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

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

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

Classification

Financial asset investment balances comprise the stock of shares held in the manager's box

Recognition

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

Measurement

For investments that are actively traded in organised financial markets fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date

2. Critical accounting estimates and judgments in applying accounting policies

The Company s management makes estimates and judgments that affect the reported amount of assets and liabilities Estimates and judgments 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) Deferred origination costs

Origination costs in respect of the contracts managed by the Company, which are incurred during a financial period but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins All other costs are recognised as expenses when incurred The calculation of the deferred origination cost asset and its pattern of amortisation requires estimation of both the expected pattern of receipt of future revenue margins and the period of time that the business is expected to remain in force Further information on this asset is given in note 1(d) Estimation is required of the period that the business is expected to remain in force and prudent assumptions are required for contracts which do not have a fixed maturity date

(b) Deferred income

Income received for services to be provided in future periods is deferred and recognised in the statement of comprehensive income as the service is provided As above, estimation is required of the period that the business is expected to remain in force and prudent assumptions are required for contracts which do not have a fixed maturity date Further information on this liability is given in note 18 and note 1(k)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

3. Revenue

	2012 £000	2011 £000
Annual management charges	106,484	100,172
Income from unit dealing	25,406	37,415
Decrease in deferred income liability	13,726	15 192
Total	145,616	152,779

4. Distribution and selling costs

	2012 £000	2011 £000
Commissions payable and other selling costs	36,911	43,607
Decrease in deferred origination costs	10,341	10 831
Total	47,252	54 438

5 Investment income

	2012 £000	2011 £000
Bank interest	-	27
Interest and dividend income on financial assets at fair value through profit or loss	851	1 130
Total	851	1,157

6 Net fair value gains on financial instruments at fair value through profit or loss

	2012 £000	2011 £000
Gain on financial assets at fair value through profit or loss	645	753
Total	645	753

Included in gains on financial assets at fair value through profit or loss above are movements as a result of holding prefunded OEIC shares to facilitate transactions

7 Other operating income

	2012 £000	2011 £000
Registration fees and other income	15,409	13 391
Total	15 409	13 391

8 Administrative expenses

	2012 £000	2011 £000
Recharges from other group companies	47,474	43,480
Investment expenses	20,286	17,806
Movement in provision (note 19)	(2,756)	(2,731)
Custodian fees	297	288
Trustee fees	126	140
Other	323	282
Total	65,750	59,265

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

8. Administrative expenses (continued)

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

The administration of the Company is undertaken by other group companies A recharge is levied from these undertakings to the other relevant group companies in respect of those costs incurred on behalf of the Company

The Company had no direct employees during the year (2011 nil) The employee costs, including pension costs and share-based payment costs, are included in the recharge from other Group companies noted above

Audit fees for 2011 and 2012 were borne by another group company and recharged to the Company

9 Auditors' remuneration

	2012 £'000	2011 £'000
Fees payable to the company's auditor for the audit of the company's annual financial statements	36	38
Fees payable to the company's auditor and its associates for other services		
Audit-related assurance services	25	24
Total	61	62

Audit fees for 2011 and 2012 were borne by another company within the group and recharged to the Company

10 Finance costs

	2012 £000	2011 £000
Finance Costs	110	40
Total	110	40

11. Taxation

(a) Current year tax charge

	2012 £000	2011 £000
Current tax:		
UK corporation tax	12,105	14,487
Total current tax	12,105	14 487
Deferred tax		
Reversal of temporary differences	-	(89)
Total deferred tax	-	(89)
Total income tax charge	12,105	14,398

(a) Reconciliation of tax charge

	2012 £000	2011 £000
Profit before tax	49,409	54,337
Tax at 24.5% (2011: 26.5%)	12,105	14,400
Effects of		
Change in tax rate	-	(2)
Total	12,105	14,398

On 21 March 2012, the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012 This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012 In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

12. Deferred origination costs

	2012 £000	2011 £000
At 1 January	61,828	72,659
Amounts incurred during the year	4,271	14,894
Amortisation during the year	(14,612)	(25,725)
At 31 December	51 487	61 828

Of the above total, £38,849k (2011 £38 225k) is expected to be recovered more than one year from the reporting date

13 Financial assets at fair value through profit or loss

	2012 £000	2011 £000
Other OEIC holdings	6 027	5,386
Total	6 027	5,386

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

14 Trade and other receivables

	2012 £000	2011 £000
Financial assets		
Trade receivables	51,907	33,227
Amounts due from group undertakings	4,332	4 109
Non trade receivables	6 240	5 260
Total	62,479	42 596

None of the above balances are interest-bearing (2011 none)

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

15. Tax liability

	2012 £000	2011 £000
Current tax payables	26 592	14 487
Total tax liabilities	26,592	14 487

16. Cash and cash equivalents

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

	2012 £000	2011 £000
Investment in liquidity funds	139,815	201 082
Cash at bank	1,836	2,560
Bank overdrafts	(18 719)	(6,368)
	122,932	197 274

OEIC liquidity fund holdings are used to optimise returns on excess funds held by the Company

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

17. Share capital

	2012 £000	2011 £000
Allotted, called up and fully paid share capital:		
50,000 ordinary shares of £1 each	50	50
	50	50

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

18 Deferred income

	2012 £000	2011 £000
At 1 January	84,531	99,723
Amounts deferred during the period	8,017	18,327
Amortisation during the period	(21 743)	(33 519)
At 31 December	70,805	84,531

Of the above amount, £53,544k (2011 £51,932k) is expected to be recovered more than one year from the reporting date

19 Provisions

	2012 £000	2011 £000
At 1 January	3,134	5,865
Provisions made during the year		540
Provisions utilised during the year	-	(2 474)
Unused amounts reversed	(2,756)	(797)
At 31 December	378	3,134

The Company entered into an arrangement with Lloyds TSB Bank plc on 28 November 2006 under which it indemnified Lloyds TSB Bank plc for losses incurred in hedging transactions undertaken by Lloyds TSB Treasury plc (LTSB') on behalf of Capital Protected OEIC Fund ("CPF') and Protected Capital Solutions Fund ("PCSF') This arrangement ceased in June 2012 coinciding with the maturity of CPF 21

20. Trade and other payables

	2012 £000	2011 £000
Trade payables	40,082	25,999
Amounts due to group undertakings	47,634	21,870
Other payables	2 569	(497)
Total	90,285	47,372

None of the above balances are interest-bearing (2011 none)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

21. Decrease/ increase in operating assets and liabilities

	2012 £000	2011 £000
Decrease / (increase) in operating assets		
Financial assets at fair value through profit or loss	(641)	(754)
Trade and other receivables	(19 883)	14 886
Decrease / (increase) in operating assets	(20 524)	14 132
(Decrease) / increase in operating liabilities		
Trade and other payables and provisions	40,158	(7 014)
(Decrease) / increase in operating liabilities	40,158	(7 014)
Net decrease in operating assets and liabilities	19,634	7,118

22. Dividends paid

	2012 £000	2011 £000
Total dividends paid on equity shares	140 000	-
	140,000	-

An interim dividend of £15,000,000 (£300 per share) in respect of the 2011 results was approved in January 2012 and paid in February 2012

An interim dividend of £125,000,000 (£2500 per share) was approved in July 2012 and paid in August 2012

23. Risk management

The Company manages ISAs, PEPs and OEIC sub funds

This note summarises the risks associated with the activities of the Company and the way in which the Company manages them

(a) Governance framework

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

Responsibility for the setting and management of risk appetite and risk policy resides with the Board who manage risks in line with LBG and Insurance risk policies The Board has delegated operational implementation to the Insurance Executive Committee

The approach to risk management ensures that there is effective independent checking or 'oversight of key decisions through the operation of a three lines of defence model The first line of defence is line management, who have direct accountability for risk decisions The Risk function provide oversight and challenge and form the second line of defence Internal Audit constitutes the third line of defence, which provides the required independent assurance to the Audit Committee and the Board that risks within the Group are recognised, monitored and managed within acceptable parameters

An enterprise-wide risk management framework for the identification, assessment, measurement and management of risk is in place The framework is in line with the LBG's risk management principles and covers the full spectrum of risks that the Company is exposed to Under this framework, risks are categorised according to an approved LBG risk language which has been adopted across the Group This covers the principal financial risks faced by the Company, including the exposures to credit, market and financial soundness risk The performance of the Company, its continuing ability to transact business and the strategic management of the business depend on its ability to manage these risks

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

23. Risk management (continued)

(b) Risk appetite

The Board has defined the methodology for the management of risk appetite and has approved appropriate limits

Exposure to each type of risk is monitored against prescribed limits and the results reported to the Board of the Company Where the exposure to any risk exceeds a trigger amount, the Insurance Executive Committee must approve an action plan to reduce the exposure or the Board must approve a revised limit

(c) Financial risks

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 and financial soundness risk.

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

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

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

The 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, in accordance with the requirements of IFRS 7, management's assessment of the most likely other outcomes in respect of each sensitivity, rather than worst case scenario positions

1) Market risk

Market risk is the risk of reductions in earnings and/or value through financial or reputational loss from unfavourable market movements This risk typically arises from fluctuations in market interest rates (interest rate risk), and market prices (equity risk), whether such changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market

Investment holdings within the Company are diversified across markets and, within markets, across sectors Holdings of individual assets are diversified to minimise specific risk and large individual exposures are monitored closely

In addition to market risk on directly held assets and liabilities the Company has an exposure to indirect market risk this arises from the fact that the annual management charges collected and associated costs for the management of the funds fluctuate with the market movements impacting the value of policyholder funds

An analysis of financial assets and financial liabilities at fair value through profit or loss according to their fair value hierarchy (as defined in note 1 (e)) is given below

As at 31 December 2012

	Fair value hierarchy			
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit or loss	6,027	-	-	6,027
Total assets	6,027	-	-	6,027

As at 31 December 2011

	Fair value hierarchy			
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit or loss	5,386	-	-	5,386
Total assets	5,386	-	-	5 386

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

23 Risk management (continued)

(i) Direct 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

If interest rates were to increase or decrease by 25 basis points, the impact on profit or loss before tax would be an increase or decrease respectively of £665k (2011 increase or decrease respectively of £365k) in respect of interest-bearing financial assets and financial liabilities

(ii) Direct equity risk

The Company's exposure equity risk relates to income which will fluctuate as a result of changes in market prices other than from interest and foreign exchange fluctuations This is due to both Investment Management fee income and Registration fee income being linked to the value over underlying Funds under Management Accordingly, the Company monitors exposure limits both to any one counterparty and any one market

2) Credit risk

Credit risk is the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the failure of the party with whom the Company has contracted to meet its obligations

Credit risk is managed in line with the LBG Credit Risk Policy

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

The following table sets out details of those assets which bear credit risk

	2012 £000	2011 £000
Financial assets through fair value profit and loss	6,027	5,386
Trade and other receivables	62 479	42 596
Cash and cash equivalents	1,836	2,560
Investments in liquidity funds	139,815	201,082
Total assets bearing credit risk	210 157	251 624

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

As at 31 December 2012

	Total £000	AAA £000	AA £000	A £000	Not rated £000
Financial assets through fair value profit and loss	6 027	-	-	-	6,027
Trade and other receivables	62 479	-	-	4 046	58 433
Cash and cash equivalents	1,836	-	-	1,836	-
Investments in liquidity funds	139,815	139,815	-	-	-
Total	210 157	139,815	-	5 882	64 460

Of the unrated assets, approximately £34m relate to payments due from the OEICs

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

23 Risk management (continued)

As at 31 December 2011

Liabilities	**Carrying amount £000**	**No stated maturity £000**	**Contractual cash flows (undiscounted)** Less than 1 month £000	1-3 months £000	3-12 months £000	1-5 years £000	More than 5 years £000
Provisions	2 594	-	-	-	2,594	-	-
Borrowings	3,808	-	3,808	-	-	-	-
Trade and other payables	47,912	-	47,912	-	-	-	-
Total	54,314	-	51,720	-	2 594	-	-

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

(iii) Capital risk

Capital risk is defined as 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 FSA The FSA specifies the minimum amount of capital that must be held by the Company 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 comply with the regulatory capital requirements set out by the FSA in the UK
- 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 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 s capital comprises all components of equity, movements in which are set out in the statement of changes in equity The Company receives most of its funding from its parent and does not raise funding externally

The table below sets out the regulatory capital requirement and the required capital held at 31 December in each year The current year information is, in general, an estimate that will be updated once the FSA returns for the year are finalised

	2012 £000	**2011 £000**
Regulatory capital held	79,317	141,918
Regulatory capital requirement	12 904	9,365

All minimum regulatory requirements were met during the year

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

23. Risk management (continued)

Compliance with FSA regulatory requirements

The Capital Requirements Directive created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain In the United Kingdom, this is being implemented by our regulator, the FSA which has created new rules and guidance specifically through the creation of the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for UCITS (UPRU)

The FSA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit market and operational risk,
- Pillar 2 requires each company, and the FSA, to take a view on whether the company needs to hold additional capital against firm-specific risks not covered by Pillar 1 and
- Pillar 3 requires each company to develop a set of disclosures which will allow market participants to assess key information about its underlying risks risk management controls and capital position

Rule II of BIPRU sets out the provision for Pillar 3 disclosure This must be done in accordance with a formal disclosure document The disclosure of this document meets the Group's obligation with respect to Pillar 3, and is at www lloydsbankinggroup com

4) Operational risks

Operational risk covers the risk of reductions in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, operational inefficiencies, or from people related or external events

There are a number of categories of operational risk

Customer treatment and processes risk

The risk of regulatory censure and/or a reduction in earnings/value through financial or reputational loss, from inappropriate or poor customer treatment Associated risks include poor product design and development, customer advice, customer service and customer complaint handling Customer process risk includes customer transactions and processing errors due to incorrect capturing of customer information and/or systems failure

Customer treatment and how LBG as a whole manages its customer relationships affects all aspects of the Group s operations and is closely aligned with achievement of LBG s strategic vision to be the best bank for customers There remains a high level of scrutiny regarding the treatment of customers by financial institutions from regulatory bodies, the press and politicians

People risk

The risk of reductions in earnings and/or value through financial or reputational loss arising from ineffectively leading colleagues responsibly and proficiently, managing people resource, supporting and developing colleague talent, or meeting regulatory obligations related to our people

Financial crime and security risk

Financial crime risk covers the risk of reduction in earnings and/or value, through financial or reputational loss, associated with financial crime and failure to comply with related regulatory obligations, these losses may include censure, fines or the cost of litigation This includes risks associated with fraud and bribery, and obligations related to money laundering, sanctions and counter terrorism

Security risk relates to the risk of reductions in earnings and/or value, through financial or reputational loss, resulting from theft of or damage to the Group s assets, the loss, corruption, misuse or theft of the Group s information assets or threats or actual harm to the Group's people This also includes risks relating to terrorist acts, other acts of war, geopolitical, pandemic or other such events

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

23. Risk Management (continued)

Organisational infrastructure and change risk

Organisational infrastructure risk covers the risk of reductions in earnings and/or value, through financial or reputational loss, resulting from poor internally facing business processes at a Group, divisional or company level Organisational infrastructure in this context embraces the structures, systems and processes that provide direction control and accountability for the enterprise Change risk comprises the risk of potential loses from change initiatives failing to deliver to requirements, budget or timescale, failing to implement change effectively or failing to realise desired benefits

Supplier management risk

The risk of reductions in earnings and/or value through financial or reputational loss from services with outsourced partners or third party suppliers

IT Systems risk

The risk of reductions in earnings and/or value through financial or reputational loss resulting from the failure to develop, deliver or maintain effective IT solutions

Legal and prudential regulatory risks

Legal and regulatory risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from failing to comply with the applicable laws, regulations or codes applicable

Regulators are interested in protecting the rights of the policyholders and ensuring that the Company is satisfactorily managing affairs for the benefit of the policvholders Regulators are also keen to ensure that the Company maintains appropriate solvency levels to meet unforeseen liabilities arising from reasonably foreseeable economic shocks or natural disasters As such, the Company is subject to regulatory requirements which prescribe and impose certain restrictive provisions

24 Related party transactions

(a) Ultimate parent and shareholding

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

The Company's ultimate parent company and ultimate controlling party is LBG, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member

Scottish Widows plc is the parent undertaking of the smallest such group of undertakings Copies of the Lloyds Banking Group plc financial statements in which the Company is consolidated can be obtained from the Group Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN

(b) Transactions and balances with related parties

The Company acts as an Authorised Corporate Director for 77 authorised OEIC sub funds (2011 82)

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

	2012 £000	2011 £000
OEIC sub funds		
Aggregate total transactions for the year		
Creations	11,725,966	3,156 643
Cancellations	2 552,997	2,083,689
Aggregate amounts due to trustees and depositary		
Accrued at year end	(3,783)	(8,940)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

24 Related party transactions (continued)

	2012 £000	2011 £000
OEIC sub funds		
Amounts received by the Company		
Gross annual investment management fees	130,213	113,748
Registrars fees	15,538	13,337
Amounts receivable at year end		
Investment management fees	13,014	9,636
Registrars fees	2,031	1 116
Managers' box		
Managers' box held at year end	6,027	5,386

Transactions between the Company and other companies in the LBG

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

	Transactions in the Year		Outstanding Balance at 31 December	
	2012 £000	2011 £000	2012 £000	2011 £000
Relationship				
Immediate parent undertaking:				
Management charge rebates paid	(10,231)	(7,293)	(1.216)	(537)
Commission paid	(34,855)	(42.113)	(35,039)	(17,142)
Dividend paid	(140,000)	-	-	-
Intercompany debtor	-	-	135	140
Other related parties				
Bank account balances	(19)	(11)	(16,844)	(3,808)
Management charges received	36,606	29,313	3,376	2 433
Management charges paid	(30,442)	(32,682)	(185)	(138)
Management charge rebates paid	(36,606)	(29,313)	(3,376)	(2,433)
Management charge rebates received	30 193	27,892	3,931	3 887
Expense recharges paid	(47,451)	(48,300)	(5,119)	(694)
Investment in Global Liquidity Fund	851	1,130	139,815	201,082
Investment management fees paid	(16,674)	(15,552)	(1,415)	(1,344)
Investment management fees received	2,601	1,226	185	138
Outsourcing investment management fees paid	-	(457)	-	-
Custody fees paid	(191)	(216)	-	(54)

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

Transactions between the Company and key management

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

The Directors consider that they receive no remuneration for their services to the Company The Directors are also Directors of certain key operating companies within the Lloyds Banking Group plc of which the Company is a member The emoluments of the Directors are disclosed in the financial statements of those companies

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

24. Related party transactions (continued)

HM Treasury

In January 2009, HM Treasury became a related party of the Company following its subscription for ordinary shares in LBG, the Company's ultimate parent company, issued under a placing and open offer As at 31 December 2012, HM Treasury held a 39 2 percent (2011 40 2 per cent) interest in LBG's ordinary share capital and, consequently, HM Treasury remained a related party of the Company throughout 2012

There were no material transactions between the Company and HM Treasury during the year (2011 none) that were not made in the ordinary course of business or that are unusual in their nature or conditions In addition, the Company has entered into transactions with HM Treasury on an arm's length basis including, but not exclusively in relation to, the payment of corporation tax, employment tax, and value added tax

Share-based payments

During the year ended 31 December 2012, the Company's ultimate parent company operated share-based payment schemes, all of which are equity settled Further details in respect of these schemes can be found in the financial statements of that company

25. Standards and interpretations effective in 2012

The Company has adopted the following new standards and amendments to standards which became effective for financial years beginning on or after 1 January 2012 Neither of these standards or amendments has had a material impact on these financial statements

(i) Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) Requires disclosure in respect of all transferred financial assets that are not derecognised in their entirety and transferred assets that are derecognised in their entirety but with which there is continuing involvement

(ii) Deferred Tax – Recovery of Underlying Assets (Amendment to IAS 12) Introduces a rebuttable presumption that investment property measured at fair value is recovered entirely through sale and that deferred tax in respect of such investment property is recognised on that basis The Company's existing practices are consistent with this Amendment

Details of those IFRSs pronouncements which will be relevant to the Company but which were not effective at 31 December 2012 and which have not been applied in preparing these financial statements are given in note 26

26 Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2012 and have not been applied in preparing these financial statements Except as disclosed below, the full impact of these accounting changes is being assessed by the Company

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 1 "Presentation of Financial Statements" – 'Presentation of Items of Other Comprehensive Income'	Requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassified to profit or loss subsequently	Annual periods beginning on or after 1 July 2012
Amendments to IFRS 7 "Financial Instruments Disclosures" – 'Disclosures-Offsetting Financial Assets and Financial Liabilities'	Requires an entity to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's balance sheet	Annual periods beginning on or after 1 January 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012 (CONTINUED)

26 Future accounting developments (continued)

Pronouncement	Nature of change	IASB effective date
IFRS 9 'Financial Instruments'[1,2]	Replace those parts of IAS 39 'Financial Instruments Recognition and Measurement relating to the classification measurement and derecognition of financial assets and liabilities IFRS 9 requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument, and eliminates the available-for-sale financial asset and held-to-maturity investment categories in IAS 39 The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2015
IFRS 12 Disclosure of Interests in Other Entities'	Requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows	Annual periods beginning on or after 1 January 2013
IFRS 13 Fair Value Measurement	Defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements	Annual periods beginning on or after 1 January 2013
Amendments to IAS 32 "Financial Instruments Presentation" – Offsetting Financial Assets and Financial Liabilities'	Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement	Annual periods beginning on or after 1 January 2014

[1] At the date of this report, these pronouncements are awaiting EU endorsement
[2] IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting, as well as a reconsideration of classification and measurement Until all stage of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39

27. Post balance sheet events

The proposed further reduction in the rate of corporation tax to 21% from 1 April 2014 is expected to be enacted separately each year