SCOTTISH WIDOWS AUTO ENROLMENT SERVICES LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2019

Member of Lloyds Banking Group plc

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COMPANY INFORMATION

Board of Directors

S C Guild
S W Lowther
R D Smith

Company Secretary

K J McKay

Independent Auditors

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

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Registration Number

05718984

DIRECTORS' REPORT

The Directors present the audited financial statements of Scottish Widows Auto Enrolment Services Limited ("the Company"), a limited liability company domiciled and incorporated in the United Kingdom. The Company changed its name from Zurich Group Pension (UK) Services Limited to Scottish Widows Auto Enrolment Services Limited on 13 April 2018.

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

Results and dividend

The result of the Company for the year ended 31 December 2019 is a profit before tax of £119,648 (2018: £133,826). After taking taxation into account an amount of £96,915 was transferred to reserves (2018: £108,399).

The total net assets of the company have increased to £1,013,900 (2018: £811,978).

No dividends were paid or proposed during the year. The Directors recommend no payment of a final dividend (2018: £nil).

Directors

The names of the current Directors are listed on page 3.

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

S W Lowther	
D Trapnell	(resigned 10 January 2020)
S C Guild	
R D Smith	(appointed 10 January 2020)

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

Company Secretary

K J McKay replaced C A Hankin as company secretary on 31 December 2019.

Directors' indemnities

Lloyds Banking Group plc 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. 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 a 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 plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditors

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director in order 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.

Financial risk management

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

The United Kingdom leaving the European Union

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 impact of this on the Company is expected to be minimal.

DIRECTORS' REPORT (CONTINUED)

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. The impact of this on the Company is not expected to be significant.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the company financial statements in accordance with International 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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 profit of the Company; and
- the Directors' Report on page 5 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
9th September 2020

Independent auditors' report to the members of Scottish Widows Auto Enrolment Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, Scottish Widows Auto Enrolment Services'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 profit 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 for the year ended 31 December 2019 (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Statement of Comprehensive income, the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended 31 December 2019; 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 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.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the 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 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 5 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. 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
9th September 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Revenue		195,643	210,108
Cost of Sales		(80,000)	(75,819)
Gross Profit		115,643	134,289
Other expenses	3	(1)	(3,072)
Operating Profit		115,642	131,217
Investment Income	4	4,006	2,609
Profit before tax		119,648	133,826
Taxation	5	(22,733)	(25,427)
Profit for the year		96,915	108,399

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

The notes set out on pages 11 to 21 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
ASSETS			
Current assets			
Financial assets:			
Trade and other receivables	6	205,653	7,259
Cash and cash equivalents	8	808,247	804,719
Total assets		1,013,900	811,978
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	11	1	1
Retained earnings		740,474	643,559
Total equity		740,475	643,560
LIABILITIES			
Current liabilities			
Financial liabilities:			
Trade and other payables	9	137,928	61,525
Current tax liabilities		48,160	31,813
Deferred income	10	87,337	75,080
Total current liabilities		273,426	168,418
Total equity and liabilities		1,013,900	811,978

The notes set out on pages 11 to 21 are an integral part of these financial statements.

The financial statements on pages 8 to 21 were approved by the Board of Directors on 9th September 2020, and signed on its behalf by

S W Lowther
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Cash flows from operating activities			
Profit before tax		119,648	133,826
Adjusted for:			
Net movement in operating assets and liabilities	12	(121,991)	(123,895)
Net movement in deferred income	10	12,257	(9,507)
Tax paid		(6,386)	(2,549)
Net cash (outflows)/inflows from operating activities		3,528	(2,125)
Cash flows from investing activities			
Redemption of short term deposit	7	-	500,000
Net cash inflows/(outflows) from investing activities		-	500,000
Net increase/(decrease) in cash and cash equivalents		3,528	497,875
Cash and cash equivalents at the beginning of the year		804,719	306,844
Net cash and cash equivalents at the end of the year	8	808,247	804,719

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

	Share capital £	Retained earnings £	Total equity £
Balance as at 1 January 2018	1	535,160	535,161
Profit for the year and total comprehensive income	-	108,399	108,399
Balance as at 31 December 2018	1	643,559	643,560
Profit for the year and total comprehensive income	-	96,915	96,915
Dividend paid	-	-	-
Balance as at 31 December 2019	1	740,474	740,475

The notes set out on pages 11 to 21 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 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 IFRS; and

3) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through the profit and 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.

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.

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.

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.

c) Fair value methodology

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

(i) Level 1

Valued using 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.

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

1. Accounting policies (continued)

Fair value methodology (continued)

(ii) Level 2

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

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

(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 analysis of the Company's instruments held at fair value is set out at note 13.

d) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, short-term highly liquid investments (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).

Cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

e) Revenue recognition

The Company receives ongoing fee income in respect of services provided, mainly to fellow subsidiaries of LBG, to support the provision of auto enrolment pension schemes which are recognised as revenue as the services are provided.

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

f) Expense recognition

Cost of sales
Costs of sales are recognised in the statement of comprehensive income in the period in which they are incurred

Operating expenses
Operating expenses are recognised in the statement of comprehensive income in the period in which they are incurred.

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

1. Accounting policies (continued)

g) Impairment

Financial assets
Expected credit losses are calculated by using the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

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

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

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

h) Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement 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 income statement (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 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.

i) 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.

j) Dividends payable

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

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.

There are no significant accounting estimates or judgements that have been used in the preparation of these financial statements

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

3. Other expenses

	2019 £	2018 £
Other expenses	1	3,072
Total	**1**	**3,072**

Audit fees were borne by another company within the group and were not recharged to the Company. The fees payable in respect of the audit of the statutory financial statements of the Company are £7,500 (2018: £7,500). There were no fees relating to non-audit services paid to the Auditors during the year (2018: £nil).

No staff are employed directly by the Company (2018: nil). All staff providing services to the Company are employed by other subsidiaries of LBG.

4. Investment income

	2019 £	2018 £
Interest on cash at bank	4,006	1,362
Interest on investment in a liquidity fund	-	1,247
Total	**4,006**	**2,609**

5. Taxation

a) Current year tax charge

	2019 £	2018 £
Current tax:		
UK corporation tax	22,733	25,427
Total current tax	**22,733**	**25,427**

b) Reconciliation of tax charge

	2019 £	2018 £
Profit before tax	119,648	133,826
Tax at 19% (2018: 19%)	22,733	25,247
Total	**22,733**	**25,247**

Corporation tax is charged at a rate of 19.00% (2018: 19.00%) of the taxable profit for the year.

6. Trade and other receivables

	2019 £	2018 £
Trade receivables	5,374	1,695
Amounts due from former parent (see note 14)	11,960	5,564
Amounts due from fellow subsidiaries	188,319	-
Total	**205,653**	**7,259**

7. Investments

	2019 £	2018 £
Short-term deposit	-	500,000
Total	**-**	**500,000**

Short term deposit represented a 6 month fixed rate deposit of £500,000 with a major UK bank.

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

8. Cash and cash equivalents

	2019 £	2018 £
Cash and cash equivalents	808,247	804,719
Total	**808,247**	**804,719**

9. Trade and other payables

	2019 £	2018 £
Amounts owed to group undertakings (see note 14)	137,928	61,525
Total	**137,928**	**61,525**

Amounts owed to group undertakings and the Parent company, are unsecured, interest free and have no fixed date of repayment.

10. Deferred income

	2019 £	2018 £
Deferred income	87,337	75,080
Total	**87,337**	**75,080**

The company receives payment for services annually in advance, this is then deferred and released during the year as the service is deemed rendered.

11. Share Capital

	2019 £	2018 £
Allotted, called up and fully paid share capital		
1 share of £1	1	1

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

	2019 £	2018 £
Net (increase)/decrease in operating assets		
Loans and other receivables	(198,394)	(6,684)
Net (increase)/decrease in operating assets	(198,394)	(6,684)
Net (decrease)/increase in operating liabilities		
Trade and other payables	76,403	(117,211)
Net increase / (decrease) in operating liabilities	76,403	(117,211)
Net (increase)/decrease in operating assets and liabilities	(121,991)	(123,895)

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

13. Risk management

The principal activity is the provision of services to support fellow UK group companies in respect of the administration of auto enrolment pension schemes.

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, capital, liquidity, regulatory & 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 the management of risk resides with the Board of the Company. The Board manages risks in line with LBG and Insurance risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee ("IROC") with the operational implementation of these being assigned to the Insurance and Wealth Risk Committee ("IWRC").

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, people, conduct risks, regulatory & 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.

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 market, credit, liquidity and capital 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 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, 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 management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

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

13. Risk management (continued)

c) Financial risks (continued)

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.

All of the financial assets of the Company which are measured at fair value, which relate to bank accounts and investments in liquidity funds of £808k (2018: £794k), are classified in level 1 of the IFRS 7 fair value hierarchy.

Interest rate risk

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

	Impact on profit after tax and equity for the year	
	2019	**2018**
	£	**£**
25 basis points (2018: 25 basis points) increase in yield curves	2,021	2,014
25 basis points (2018: 25 basis points) decrease in yield curves	(2,021)	(2,014)

Credit risk

Credit Risk is defined as the risk that parties with whom the Company has contracted, fail to meet their financial obligations, (both on or off balance sheet).

	2019 Total	**AAA**	**A**	**2018 Total**	**AAA**	**A**
	£	**£**	**£**	**£**	**£**	**£**
Trade and other receivables	205,653	-	205,653	7,259	-	7,259
Cash and cash equivalents	808,247	808,247	-	804,719	804,719	-
Exposure to credit risk	1,013,900	804,719	205,653	811,978	804,719	7,259

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 is not considered to be significant to the Company.

Liquidity risk

Liquidity risk is defined as the risk that the Company has insufficient 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.

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

13. Risk management (continued)

c) Financial risks (continued)

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.

Within the Insurance Division, capital risk is actively monitored by the Insurance and Wealth Asset and Liability Committee ("IWALCO").

The Company's objectives when managing capital are:

- to have sufficient 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.

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

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
- 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

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

13. Risk management (continued)

d) Non-Financial Risks (continued)

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.

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.

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

13. Risk management (continued)

d) Non-Financial Risks (continued)

Operational risk (continued)

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 Insurance Division'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.

This is not however expected to have a significant impact on the Company.

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.

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 do not expect the impact on the Company to be material.

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

14. Related party transactions

Ultimate parent and shareholding

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 accounts of Scottish Widows Limited may be obtained from Insurance Secretariat, 69 Morrison Street, Edinburgh EH3 8YF.

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

Transactions and balances with related parties

The Company was purchased by Scottish Widows Limited from the Zurich Group on 3rd April 2018 as part of the acquisition of the workplace pension and savings business. As a result the Company now provides its services in respect of the acquired business to fellow subsidiaries of Scottish Widows Limited in addition to services remaining with Zurich companies.

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

		2019		
	Income during period £	Dividends paid during period £	Payable at period end £	Receivable at period end £
Relationship				
Fellow Subsidiaries (of Scottish Widows Limited)	175,419	-	137,928	188,319
Previous Parent (Zurich Assurance Limited)	11,960	-	-	17,299

		2018		
	Income during period £	Dividends paid during period £	Payable at period end £	Receivable at period end £
Relationship				
Fellow Subsidiaries (of Scottish Widows Limited)	137,127	-	61,525	-
Previous Parent (Zurich Assurance Limited)	22,623	-	-	5,564
Previous Fellow Subsidiaries (of Zurich Assurance Limited)	45,285	-	-	-

The Company was purchased by Scottish Widows Limited on 13 April 2018

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.

15. 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.