01132760

Scottish Widows Administration Services Limited

Annual Report and Accounts
2023

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

J S Wheway (Chair)

C Barua*
W L D Chalmers
K A Cooper
M H Cuhls
D L Davis
J K Harris
C J G Moulder
S T Nyahasha*
A J Reizenstein
G E Schumacher

* denotes Executive Director

Company Secretary

J M Jolly

Independent Auditor

Deloitte LLP
Statutory Auditor
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United Kingdom
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Registered Office

25 Gresham Street
London
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Company Registration Number

01132760

STRATEGIC REPORT

The Directors present their Strategic Report on Scottish Widows Administration Services Limited (the 'Company') for the year ended 31 December 2023. The Company is limited by share capital.

The Company contributes to the results of the Insurance, Pensions and Investments (IP&I) Division of Lloyds Banking Group.

Principal activities

The Company acts as platform operator and as a manager for Individual Savings Accounts (ISAs), Investment Accounts and Self Investment Personal Pensions (SIPPs) in the United Kingdom. The Company also acts as a service provider to Scottish Widows Limited (SWL) in respect of workplace pensions business migrated onto the Corporate Savings Platform and has a contractual basis for charging these services.

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

Result for the Year

The result for the year ended 31 December 2023 is a loss before tax of £(40.5)m (2022: £(22.7)m).

The loss for the year has increased due to a reduction in revenue from capital projects recharged to SWL, which corresponds to reduced capital spend (and future depreciation) incurred by the Company, and a general increase in Group costs, a proportion of which are allocated to the Company.

Total revenue for the year ended 31 December 2023 was £65.8 million (2022: £88.3 million).

Total operating expenses for the year ended 31 December 2023 was £109.0 million (2022: £111.8 million).

The total net assets of the Company at 31 December 2023 are £139.3 million (2022: £130.2 million). During 2023, the Company issued £40.0 million of ordinary share capital to maintain a surplus over its regulatory capital requirement in accordance with the Company's risk appetite. This increased issued share capital of the Company to £228.5 million (2022: £188.5 million).

Review of the business

Contractual Terms with SWL

With effect from 1 January 2020 the Company contracted to deliver platform changes to support the migration of legacy SWL workplace pensions products onto the Corporate Savings Platform. This allows SWL to administer its business on a modern platform architecture, whilst also the Company benefits through the growth of assets on its platform.

Economic Environment

The UK economy saw modest but resilient performance in 2023, with initial estimates indicating growth of 0.1 per cent. This was despite a large increase in interest rates intended to prevent elevated inflation after the surge in global energy and food prices caused in large part by Russia's invasion of Ukraine. While inflation fell in the second half of 2023, the cost of living squeeze is still ongoing, with energy prices still around 50 per cent higher than in 2021 and food prices broadly 30 per cent higher. Government support protected households from some of the impact across 2022 and 2023, but this is not planned to continue through to 2024. Also, interest rate rises to date have not yet had their full impact, with many households yet to refinance fixed-rate mortgages at higher rates. The UK economy in 2024 is thus expected to echo its 2023 growth performance, but there are of course risks to this view, not least via consequences of any escalation of wars in Ukraine or the Middle East.

In line with Lloyds Banking Group's purpose of Helping Britain Prosper and a clear customer focus, Lloyds Banking Group are helping people and businesses finance their ambitions and growth whilst proactively providing support to those most affected by changes to the economic environment. The Company will continue to monitor the situation and risks to the business; refer to note 19 for further detail on shareholder asset exposures.

Climate Change

The Company is a subsidiary of Lloyds Banking Group. Lloyds Banking Group is committed to supporting the aims of the 2015 Paris Agreement, in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

As part of Lloyds Banking Group, in 2022 Scottish Widows launched its climate action plan that sets out a long-term strategy with actions to drive the investment portfolio towards net zero by 2050, formulated in a manner that prioritises customer goals within decision-making.

The Company is supportive of the Task Force on Climate Related Financial Disclosures (TCFD) framework and related regulatory expectations and is aligned to best practice outlined by the Climate Financial Risk Forum (CFRF). In previous years a TCFD aligned report was published at the parent entity level (Scottish Widows Group). With effect from 1 January 2023, the Company is subject to the requirements of the FCA's Environmental, Social and Governance sourcebook (the sourcebook) and must therefore publish its own entity level TCFD aligned report which complies with the sourcebook

STRATEGIC REPORT (continued)

Climate Change (continued)

requirements. This report will be published on the Scottish Widows website at www.scottishwidows.co.uk/climatereport prior to 30 June 2024. Product level reporting will also be published on the Scottish Widows website, offering climate related information on customer funds.

Governance

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

Governance for climate-related risk has been embedded into the existing governance structure and is complementary to the governance of Lloyds Banking Group's sustainability strategy. The Insurance Board as a whole is responsible for sustainability within IP&I. In 2023, the IP&I Board's Sustainability Committee's remit for sustainability and responsible investment was transitioned and embedded within the responsibilities of the Board and its other committees, including a newly established IP&I Board Investment Committee, following which the Insurance Sustainability Committee was decommissioned. During 2024, we will continue to ensure sustainability is at the heart of governance and that environmental, social and governance matters are fully embedded across the committee structure and into all business-as-usual considerations.

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

Climate risk is a key area of focus for the Company,specifically the risk of experiencing losses and/or reputational damage, either from the impacts of climate change and the transition to net zero or as a result of the

Strategy

The Company's position as a large investor presents an opportunity to participate in and influence the transition to a low carbon economy for the long-term benefit of customers and society. The Company has set goals to target a 50 per cent reduction in the carbon intensity (across the investment portfolio of customer and shareholder funds) by 2030 on a path to 'net zero' by 2050. The Company also backs climate solutions for real-world impact, and the use of engagement and shareholder voting power to drive companies to make the changes necessary. Further detail can be found in the Scottish Widows Climate Action Plan, published in February 2022, and in a July 2023 report outlining the progress we have made towards our Climate Action Plan. These are available at https://www.scottishwidows.co.uk/about_us/responsibleinvestment/.

Climate related scenario analysis is an evolving area that is important to the business and will be used to produce outputs that aid the understanding of Climate Risk and support decision making.

The Company has developed a climate scenario analysis model to inform such insight. The output of this model was published in the 2022 Scottish Widows TCFD report and will be updated for the forthcoming entity and product TCFD reports. We regularly review our strategy using scenario analysis to assess its resilience. While climate science itself is very well developed, any analysis of the economic and financial impacts of climate risk involves a measure of subjectivity and simplification, so there is a relatively wide margin of uncertainty in these impacts. This type of modelling is therefore only one of several components of our climate risk management process and is not acted upon in isolation.

Metrics & Targets

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

The portfolio's "carbon footprint" is the principal metric for measuring financed emissions and monitoring progress toward the 2030 and 2050 net zero targets. The footprint is the total tonnes of carbon dioxide equivalents (CO_2e) "owned" by the portfolio and scaled by £million invested. Measurement initially includes the Scope 1 and 2 (i.e. operational) emissions of investee companies.

Key performance indicators (KPIs)

Assets Under Administration and associated income

The total value of assets under administration of the Company held on the Corporate Savings Platform at 31 December 2023 amounted to £26.1 billion (2022: £20.5 billion). Assets under the administration of the Company consist of safe custody assets, which the Company administers for its clients, and client money balances, for which the Company holds legal title on trust for its clients.

Associated revenue for the year was £30.6 million (2022: £29.4 million). This comprises fee income from the platform business.

Capital Resources

The Directors believe that the Company currently has adequate capital resources, £60.7 million (2022: £46.6 million), and will continue to do so in the foreseeable future. A capital injection is proposed for 2024 to cover forecast losses. Further information on the capital position of the Company is given in note 19.

STRATEGIC REPORT (continued)

Key performance indicators (KPIs) (continued)

Liquidity

The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations and remain within the approved risk appetite.

Other Sources where KPIs are presented

The Company also forms part of Lloyds Banking Group's IP&I Division. The development, performance and position of the IP&I Division are presented within Lloyds Banking Group's Annual Report, which does not form part of this report.

The Directors consider that the above are the KPIs which are appropriate to the principal activity of the Company. These, together with other metrics which cover customer, operational measures and capital, are included in the balanced scorecard which is used to measure all aspects of the performance of the business.

Outlook

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

Principal risks and uncertainties

Risks and uncertainties to our strategic plan, both positive and negative, are considered through the planning process. The following table describes the principal risks faced by the Company. Further details on financial risks and how the Company mitigates them can be found in note 19, as shown by the note reference.

Financial risks

Principal Risk	Note reference	Description
Market / Interest risk	19(a)(1/2)	Market risk is the risk that the Company's capital or earnings profile is affected by adverse market rates. Of particular importance to the Company are equity risk and interest rate risk. External rates are outwith the Company's control, so mitigation is via having sufficient financial reserves to recover reduced earnings.
Credit risk	19(a)(3)	Credit risk is the risk that parties with whom we have contracted, fail to meet their financial obligations. The Company is subject to credit risk through a variety of counterparties through invested assets, cash in liquidity funds and bank accounts. Credit risk is mitigated via the Credit Risk Policy framework, which ensures exposures are appropriately monitored and action taken where necessary.
Capital risk	19(a)(4)	Capital risk is defined as the risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held or that capital is inefficiently deployed across the Company. The Company's objectives when managing capital are to ensure that sufficient capital is available to safeguard the Company's ability to continue as a going concern so that it can continue to provide a return to the shareholder. Capital risk is managed via the Capital Risk policy, which includes tools and governance to monitor and allocate capital accordingly.
Liquidity risk	19(a)(5)	Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. The Company is exposed to liquidity risk from payments to policyholders and non policyholder related activity, such as investment purchases and the payment of shareholder expenses. Liquidity risk is mitigated by applying the Liquidity Risk Policy, which includes controls to maintain liquidity at necessary levels.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Non-financial risks

Principal Risk	Description
Operational risk	Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This includes risks around cyber and information security, provision of external and internal services, financial crimes, financial reporting risk, fraud, IT systems, and security. Operational risk is managed through an operational risk framework, including a Risk and Control Self-Assessment (RCSA) process, and operational risk policies. The Company maintains a formal approach to operational risk event escalation, whereby material events are identified, captured and escalated. Root causes of events are determined, and action plans put in place to ensure an optimum level of control to keep customers and the business safe, reduce costs, and improve efficiency.
Climate risk	Climate risk is defined as the risk that the Company experiences losses and/or reputational damage, either from the impacts of climate change and the transition to net zero, or as a result of the Company’s responses to tackling climate change. The Company considers the impact of climate risk as a risk driver on other risks types, such as credit risk, market risk, and operational risk. Climate risk is mitigated via the application of the Climate Risk Policy, and actions taken to address other risk types.
Data risk	Data risk is defined as the risk of failing to effectively govern, manage and control data (including data processed by third party suppliers), leading to unethical decisions, poor customer outcomes, loss of value and mistrust. It is present in all aspects of the business where data is processed, both within the company and by third parties. This risk is measured through a series of quantitative and qualitative indicators, covering data governance, data management, records management, data privacy and ethics. Data risks and controls are monitored and governed in line with an embedded risk management framework, which involves identification, measurement, management, monitoring and reporting.

Investment Firm Prudential Regime

On 1 January 2022, the new Investment Firm Prudential Regime (IFPR) came into force for all MiFID Investment Firms with a wide ranging scope, including:

a. New rules on prudential consolidation, liquidity and concentration risk;

b. New capital requirement calculations, designed to reflect the risks presented to the Company, reported to the FCA from April 2022;

c. A new Internal Capital and Liquidity Assessment process (ICARA), which was in place for year end 2022;

d. Extensive reporting and disclosure requirements to take effect and be included within the year end 2022 financial statements (See below).

Further details can be found in note 19 risk management note on capital.

As at 31 December 2023 the Company is classified as a Non-Small & Non-Interconnected (“Non-SNI”) £150k MIFIDPRU Investment Firm that is not subject to extended remuneration, governance committee and investment policy disclosure rules. The Company has an ongoing review process in place to monitor the larger non-SNI threshold and is currently below it. The larger non-SNI criteria are:

a. On and off-balance sheet total above £100m (average over the last 4 years), with a trading book above £150m;

b. On and off-balance sheet total above £300m (average over the last 4 years).

The Company undertakes activities within the scope of the UK Markets in Financial Instruments Directive (MiFID) and is therefore subject to the prudential requirements of the Investment Firm Prudential Regime (IFPR) contained in the FCA’s MIFIDPRU Handbook. The Company is required to publish disclosures in accordance with the provisions outlined in Chapter 8 and a copy of these is available on the company's website. The Company meets the thresholds to be classified as a large Client Assets Sourcebook (CASS) firm and a significant firm per the Senior Management Arrangements, Systems and Controls sourcebook (SYSC).

STRATEGIC REPORT (continued)

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

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

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

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

How the Board has discharged its Section 172 duties

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

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

The Chief Executive and management provide the Board with details of material stakeholder interaction and feedback, through a programme of business updates. Stakeholder interests are routinely identified by management in the wider proposals put before the Board.

Further details of how the Board considers each of the specific matters set out in Section 172, along with specific examples of how these considerations have influenced decisions taken by the Board, are set out in pages 8 to 11 which serves as the Company's Section 172(1) Statement. Given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

Consumers

The Board's understanding of customers' needs is vital in setting and achieving the Company's goals. Customer needs and a customer-centric approach are a key consideration in Board decision-making. The Company serves a wide variety of different customers and acts in a way designed to meet their diverse needs in a timely and efficient way through its range of products and associated customer service.

The Board reviews the performance of its customer propositions within a cycle of in-depth reviews and debates matters particular to each proposition. Board review, discussion and challenge in 2023 has covered;

- product and investment performance;
- the quality of customer service;
- evolution of product design to meet changing client needs;
- digital landscape; and
- the effectiveness of various customer engagement and distribution channels to do business with the Company.

The Board also monitored customer impacts from the cost of living crisis and customer behaviours to inform how best to support customers. The Board, supported where appropriate by various committees (including the Independent Governance and With Profits Committees) challenges management from the perspective of the customer. The Board also puts customers at the heart of its deliberations of future business strategy.

STRATEGIC REPORT (continued)

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

The Board's Risk Oversight Committee ('ROC') monitors the operational performance of customer services, including both those services delivered in-house and the performance of third-party service partners. The ROC reviews detailed customer-related risk matters and scrutinises risk performance (including Complaints and Conduct Risk Appetite Metrics) to identify areas where improvements could be made. In 2023 the Board and ROC focused on a customer servicing backlog that emerged as a result of a spike in servicing demand caused by a number of factors including market volatility and the UK's cost of living crisis. Board and ROC oversaw the recovery of servicing during 2023 and procured assurance of the root causes and remedies, for implementation by management.

In 2023, the Board established an Investment Committee to enable improved focus on the management of customers' investments through review of fund performance and asset allocation.

The Scottish Widows brand has strength derived by its consistency, heritage and specialism with a high level of brand engagement among both direct customers and intermediaries. The Board recognises the need for brand consistency and the need to ensure customer experience matches customer expectations of its brand.

Consumer Duty

During the year, the Board continued to embed the Company's implementation of the Financial Conduct Authority's (FCA) Consumer Duty regime. This aims to strengthen the Company's focus on the delivery of good outcomes for customers, ensuring customers receive information they can understand, products and services that meet their needs and offer fair value, and ensure customers receive the support they need.

The Board of the Company recognises the importance of understanding its performance in supporting customers, including how the Company performs relative to its peers. Regular Board updates from management cover a range of relevant internal and external sources relevant to how consumer duty is being embedded into decision-making.

Investment performance

The Board of the Company is responsible for the strategy of investing customer assets, supported by its Investments Committee and With Profits Committee. The Company's approach to investment management is also supported by the Company's appointed fund managers, Schroder Investment Management (Schroders) and BlackRock.

The management of most of the Company's active funds by Schroders provides access to leading investment management expertise and helps to drive improved potential for increased investment returns for customers. The Company, via its Investment Committee, regularly reviews the performance of external asset managers.

Technology

The Board has taken steps to make sure the Company continues to respond to customer demand for digitised customer journeys. Whilst committed to digitisation, the Board acknowledges the need to retain telephony for certain customer experiences and for customers who may have a particular need, including those with a vulnerability.

Helping Britain Prosper

Lloyds Banking Group's purpose is Helping Britain Prosper. It does this by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.

Lloyds Banking Group continues to invest significantly in the development of its IP&I business, of which the Company forms part, with the aim of becoming Britain's preferred financial partner for pensions and financial planning, helping to enable households' financial health and resilience and meeting more of Lloyds Banking Group's customers' financial needs, increasingly with carbon neutral investments. Further information on Lloyds Banking Group's initiatives can be found in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2023, available on the Lloyds Banking Group website, at https://www.lloydsbankinggroup.com/investors/annual-report.html

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group, forming part of its IP&I business unit. As a wholly owned subsidiary the Board ensures that the strategy, priorities, processes and practices of the Company are aligned where appropriate to those of Lloyds Banking Group, ensuring that its interests as the Company's shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2023.

STRATEGIC REPORT (continued)

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

The relationship between the Board of the Company and the Board of Lloyds Banking Group is supported by at least one senior leader from Lloyds Banking Group serving as a Non-executive Director on the Company's Board throughout 2023. The Board of the Company also welcomed the Chief Executive Officer of Lloyds Banking Group joining one of its meetings during 2023, for a discussion of Company strategy in the context of contemporary issues in the Company's commercial environment.

Communities and the environment

With the embedding of sustainability issues into the Company's business as usual activities, the Insurance Sustainability Committee was disbanded in 2023 and in its place an Investments Committee was established. The Investment Committee is responsible for reviewing the Scottish Widows Responsible Investment and Stewardship Framework and responsible investment generally. The Insurance Audit Committee has taken on responsibility for oversight of the publication of the Scottish Widows Task Force on Climate Related Financial Disclosures ('TCFD') Report and related regulatory expectations on disclosures. The TCFD Report can be found on the Scottish Widows website at: https://www.scottishwidows.co.uk/about_us/responsibleinvestment/information-hub/.

The Chairs of the Investment Committee and the Insurance Audit Committee report regularly to the Board on proceedings after each meeting on all matters within its duties and responsibilities.

Approval of proposed external commitments in relation to climate risk that materially impact the Company or the Company's funds is reserved to the Board. The IP&I Risk Oversight Committee on behalf of the Board considers the Company's management of climate risk, providing oversight and challenge on those activities which impact on the Company's reputation as a responsible business.

Responsible Investment & Stewardship

The Board monitors the Company's overall investment strategy and in 2023 approved updates to the Scottish Widows' Responsible Investment and Stewardship Framework. This is a principles-based framework which guides the Company's decisions on the investments made, the fund managers selected, research into funds, and how the Company engages with companies it invests in.

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

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

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

Further detail on Scottish Widows responsible investment and stewardship initiatives including published reports can be found on the Scottish Widows website, at https://www.scottishwidows.co.uk/about_us/responsibleinvestment/.

Board diversity

The Board considers its current size and composition to be appropriate to the Company's circumstances. The Board recognises the need to ensure its membership reflects the diversity of modern Britain and is inclusive. The Board aims to comply with Lloyds Banking Group's policy on diversity (pro-rated for the respective size of each Board). This means that, for gender diversity, the Board aims to maintain membership of at least three female Board members. At 31 December 2023, the Board met that expectation. The Board also meets the objectives of the Parker review to have at least one Black, Asian or Minority Ethnic Board member. The Company also supports the Lloyds Banking Group high-level approach to diversity in senior management roles, which is governed in greater detail through Lloyds Banking Group policies.

Regulators

The Board maintains strong, open, and transparent relationships with regulators and relevant government authorities. Liaison with regulators and the Government, both directly and as part of Lloyds Banking Group, is an ongoing priority at all levels of the organisation, ensuring Lloyds Banking Group and the Company's strategic aims align with the requirement of these important stakeholders. In September 2023 the Board invited representatives from the Prudential Regulation Authority to join its meeting to discuss key priorities. In addition, individual Directors have in the ordinary course of business continuing discussions with regulators on various matters within the regulatory agenda. Regulatory engagement provides a view of the key areas of regulatory focus to management and the Board with monitoring or regulatory actions in place.

STRATEGIC REPORT (continued)

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

Suppliers

As part of Lloyds Banking Group, the Company has entered into a number of strategic partnerships for important aspects of its operations and customer service provision. As well as external partners, the Company relies on supplier arrangements within Lloyds Banking Group for certain services. The Board delegates to management the primary responsibility of oversighting those relationships, while recognising that they are integral to the Company's future success. Throughout 2023 the Board has held management to account for the performance of supplier relationships, including for third-party provision of customer servicing.

An advantage of being part of a larger group means there are robust processes in place to monitor and review costs with third parties who provide services to the Company. The outsourced business model allows the Company to negotiate competitive fees and commercial terms with its service suppliers to control costs for all the Company's customers.

Importance is placed on having the right supplier framework to operate responsibly. Lloyds Banking Group's Sourcing & Supply Chain Management Policy applies to all its business units, divisions and subsidiaries, including the Company, with the Directors assuming ultimate responsibility for the application of that policy in a way that is appropriate for the individual Company within Lloyds Banking Group. This ensures the most significant supplier contracts receive approval of the Board, including those which are key in progressing strategic priorities. The framework also ensures appropriate management oversight of supplier spending not considered by the Board, allowing challenge to be made where appropriate, and minimising risks and unnecessary cost.

Suppliers are required to adhere to relevant Lloyds Banking Group policies and comply with its Code of Supplier Responsibility, which can be found on the Lloyds Banking Group website. This defines expectations for responsible business behaviour, underpinning the efforts of the Group and Lloyds Banking Group to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Lloyds Banking Group remains committed to collaborating with suppliers to tackle climate change and ensure it is embedded within strategy and governance of its organisations. Reducing suppliers' emissions is a key component of its sustainability strategy. Lloyds Banking Group's Emerald Standard asks suppliers to work towards and help drive progress towards a lower carbon future.

Modern slavery

The Responsible Business Committee of the Board of Lloyds Banking Group, as part of its oversight of its performance (including that of the Company, as a Responsible Business) - governs Lloyds Banking Group's approach to business ethics and modern slavery.

Further information on Lloyds Banking Group's approach to human rights and modern slavery is available in the Human Rights Policy and Modern Slavery Statement, published on its website and covers all subsidiary companies.Company The Board (or one of its committees) reviews these statements on an annual basis.

Maintaining a reputation for high standards of business conduct

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

On behalf of the Board of Directors

S T Nyahasha

Director

28 March 2024

DIRECTORS' REPORT

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

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

Results and dividend

The result for the year ended 31 December 2023 is a loss before tax of £(40.5) million (2022: £(22.7) million).

The loss for the year has increased due to a reduction in revenue from capital projects recharged to SWL, which corresponds to reduced capital spend (and future depreciation) incurred by the Company, and a general increase in Group costs, a proportion of which are allocated to the Company. Total Operating expenses for the year ended 31 December 2023 was £109.0 million (2022: £111.8 million).

Total revenue for the year ended 31 December 2023 was £65.8 million (2022: £88.3 million).

The total net assets of the Company at 31 December 2023 are £139.3 million (2022: £130.2 million). During 2023, the Company issued £40.0 million of ordinary share capital to maintain a surplus over its regulatory capital requirement in accordance with the Company's risk appetite. This increased issued share capital of the Company to £228.5 million (2022: £188.5 million).

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2023 (2022: £nil).

Post balance sheet events

Further information on post balance sheet events is set out in note 22.

Capital

Capital support arrangements are in place for the Company, which are provided by SWL. These irrevocable guarantees will come into effect on the occurrence of a material operational risk event impacting their respective capital positions. In addition, for Company only, these arrangements will also come into effect on the occurrence of a material reinsured fund default event impacting its capital position. SWL has made these arrangements to provide sufficient capital to maintain regulatory capital adequacy and internal capital surplus requirements of these subsidiaries if such events occur.

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:

C Barua	Appointed	31/5/2023			
K A Cooper	Appointed	1/3/2024			
M H Cuhls	Appointed	1/1/2024			
M R Downie	Appointed	1/9/2023	/	Resigned	15/1/2024
J K Harris	Appointed	29/9/2023			
J C S Hillman	Resigned	31/8/2023			
A Lorenzo	Resigned	30/5/2023			
S T Nyahasha	Appointed	15/1/2024			
S J O'Connor	Resigned	30/9/2023			

Particulars of the Directors' emoluments are set out in note 20.

Directors' indemnities

Lloyds Banking Group has granted deeds of indemnity by deed poll and by way of entering into individual deeds, which for the purposes of the Companies Act 2006 constitute 'qualifying third-party indemnity provisions' to the Directors of its subsidiary companies, including those of the Company and its subsidiaries. Such deeds were in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the Directors who join the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service.

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

DIRECTORS' REPORT (continued)

Disclosure of information to auditor

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

Research and Development

Future developments

Future developments are detailed within the Company's Strategic Report and also in note 21.

Engagement with suppliers, customers, and others

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

The accounting policy for software development costs is detailed in note 1(f)(iii) and further details of the development costs for 2023 are disclosed in note 8.

Employees

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

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

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

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

The Company has no employees as colleagues are employed by other subsidiaries within Lloyds Banking Group.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out within principal risks and uncertainties: funding and liquidity in note 19 and capital position in note 13 and additionally considered projections (including stress testing) for the Company's capital and funding position. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Financial risk management

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

Independent auditors

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

Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' and Strategic Reports and the financial statements in accordance with applicable law and regulations.

DIRECTORS' REPORT (continued)

Statement of Directors' responsibilities (continued)

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the 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 the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 Group and 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 Group and 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. 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.

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

On behalf of the Board of Directors

S T Nyahasha

Director

28 March 2024

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Scottish Widows Administration Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of cash flows;
- the statement of change in equity;
- the material accounting policy information; and
- the related notes 1 to 22 (excluding the regulatory capital disclosures marked as "unaudited" within note 19a).

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SCOTTISH WIDOWS ADMINISTRATION SERVICES LIMITED (continued)

Responsibilities of directors

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

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

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

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

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

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

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and those charged with governance about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, HMRC Corporate tax and VAT manual; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included FCA regulatory permissions including Client Assets, GDPR, Bribery Act and Financial Services and Markets Act 2000.

We discussed among the audit engagement team including relevant internal specialists such as IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in revenue recognition is in relation to the company's revenue from platform build and access services. This represents the largest revenue stream, and our fraud risk has been pinpointed to the accuracy of internal project costs recharged to the company which are subsequently marked up to generate the revenue from platform build and access services. We have obtained an understanding of the key controls within the reporting process for this account balance and subsequently tested the operating effectiveness of the key controls identified. Further to this, we have performed detailed testing over the key inputs to this recalculation, specifically the internal and external project costs used to assess their accuracy and completeness.

An additional significant risk was identified surrounding the inputs within the model used to calculate the value in use ("ViU") for the intangible asset impairment assessment. Specifically, the inputs and assumptions identified as a significant risk related to the use of inappropriate PUP ("Paid up Premium") and lapse rates, as well as the long-term growth rates and market rates used within the ViU model. We have obtained an understanding of the key controls within the reporting process for this account balance and subsequently tested the operating effectiveness of the key controls identified. We have performed detailed testing over the model inputs and challenged the appropriateness of the assumptions used.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SCOTTISH WIDOWS ADMINISTRATION SERVICES LIMITED (continued)

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with HMRC and the FCA.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception.

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

T. Noble

Tom Noble, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

28 March 2024

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 £'000	2022 £'000
Revenue	3	65,754	88,342
Operating expenses	4	(109,001)	(111,762)
Operating Loss		(43,247)	(23,420)
Investment income	6	2,762	754
Loss before tax		(40,485)	(22,666)
Taxation credit	7	9,580	4,124
Loss for the financial year		(30,905)	(18,542)

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

The notes set out on pages 22 to 42 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2023

	Note	2023 £'000	2022 £'000
ASSETS			
Intangible assets	8	61,221	69,712
Financial assets:			
Trade and other receivables	10	16,452	30,450
Accrued Income and prepayments	11	919	666
Current tax recoverable	15	9,447	4,071
Cash and cash equivalents	12	72,790	50,892
Total assets		160,829	155,791
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	13	228,500	188,500
Other reserves	14	44,000	44,000
Accumulated losses		(133,233)	(102,328)
Total equity		139,267	130,172
Liabilities			
Deferred tax liabilities	15	1,004	1,070
Financial liabilities:			
Trade and other payables	16	19,976	24,090
Accruals and deferred income	17	582	459
Total liabilities		21,562	25,619
Total equity and liabilities		160,829	155,791

Accumulated losses for the Company includes a loss for the year of £30,905k (2022: £18,542k).

The notes set out on pages 22 to 42 are an integral part of these financial statements.

The financial statements on pages 18 to 21 were approved by the Board on 28 March 2024, and signed on behalf of the Board:

S T Nyahasha

Director

28 March 2024

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Loss before tax		(40,485)	(22,666)
Adjusted for:			
Amortisation of intangible assets	8	12,636	9,826
Investment Income	6	(2,762)	(754)
Net decrease/(increase) operating assets and liabilities	18	9,754	(7,336)
Taxation received		4,138	3,023
Net cash flows used in operating activities		(16,719)	(17,907)
Cash flows from investing activities			
Addition of intangible assets	8	(4,145)	(12,302)
Investment Income	6	2,762	754
Net cash flows used in investing activities		(1,383)	(11,548)
Cash flows from financing activities			
Issue of new share capital	13	40,000	—
Net cash flows generated from financing activities		40,000	—
Net increase/(decrease) in cash and cash equivalents		21,898	(29,455)
Cash and cash equivalents at the beginning of the year		50,892	80,347
Net cash and cash equivalents at the end of the year	12	72,790	50,892

The notes set out on pages 22 to 42 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Share capital £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
Balance as at 1 January 2022		188,500	44,000	(83,786)	148,714
Total comprehensive loss of the year		—	—	(18,542)	(18,542)
Issue of share capital		—	—	—	—
Balance as at 31 December 2022 and 1 January 2023		188,500	44,000	(102,328)	130,172
Issue of share capital	13	40,000	—	—	40,000
Total comprehensive loss for the year		—	—	(30,905)	(30,905)
Balance as at 31 December 2023		228,500	44,000	(133,233)	139,267

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 19.

The notes set out on pages 22 to 42 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006;

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

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

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

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

Standards and interpretations effective in 2023

There are no new standard and interpretations effective in 2023 that have been adopted by the Company.

Future accounting developments

The IASB has issued a number of minor amendments to IFRS effective 1 January 2024, including IFRS 16 Lease liability in a sale and leaseback, IAS 1 Non-current liabilities with covenants, and IAS 1 Classification of liabilities as current or non-current. These amendments are not expected to have a significant impact on the Company.

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

(b) Financial assets and financial liabilities

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

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

The Company initially recognises financial assets and liabilities when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Transaction costs incidental to the acquisition of a financial asset classified as measured at fair value through profit or loss are expensed through the statement of comprehensive income, within net gains and losses on assets and liabilities at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

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 a fair value measurement is disclosed, are categorised into a 'fair value hierarchy' as follows:

(i) Level 1

Valued using quoted prices in active markets for identical assets and liabilities to those being valued. An active market is one in which similar arm’s length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) Level 2

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

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

(iii) Level 3

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

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

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

(d) Revenue recognition

Revenue

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

Pension contract administration

Pension contract administration includes both insurance related services provided by the Company, acting as an intermediary between the insurer and the insured and administration costs charged to external customers of final salary pension schemes. This revenue is recognised in the statement of comprehensive income when the Company's performance obligations have been met. These are recognised over a period of time.

Revenue is measured at an amount that reflects the consideration received or receivable for services provided in the normal course of business, net of discounts and VAT.

Savings business administration

Savings business administration revenue includes fund based charges to policyholders for business administered on the Corporate Savings Platform. The transaction price is calculated as a percentage of the fund value. The Company provides the administration services to policyholders throughout the duration of those customers’ investments in the funds on the Corporate Savings Platform. The Company therefore recognises the revenue on a daily basis. Outstanding amounts are typically settled monthly.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(d) Revenue recognition (continued)

Platform build and access services

Corporate Savings Platform build and access services are provided to the Company's immediate parent undertaking, SWL. The platform build and platform access service are together a distinct service, although there are separate performance obligations and transaction prices for each component of the service.

The Company has an enforceable right to payment that at least compensates the Company for platform build services completed to date in the event SWL terminates the contract for platform build services for reasons other than the Company's failure to perform as promised, and revenue for the platform build service component is recognised in the statement of comprehensive income as the Company incurs platform build costs. The transaction price for the platform build service component is calculated based on platform build cost incurred plus applicable mark up and is typically settled monthly.

Revenue for the platform access service component is recognised in the statement of comprehensive income as platform access services are provided. The transaction price for the platform access service component is calculated consistently with an intercompany agreement with SWL and is typically settled monthly.

(e) Investment 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

Operating expenses

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

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

(g) Intangible assets

(i) Corporate Savings Platform

The Corporate Savings Platform intangible asset arising on the acquisition of the UK saving business of Zurich was initially measured at fair value at the time of acquisition and is subsequently held at that fair value less accumulated amortisation. The initial fair value was determined using the replacement cost method at the time of acquisition. Any additional enhancements to the system are capitalised under software development costs, as set out at policy (e)(iii). Once brought into use, any additional enhancements to the system are amortised using the straight-line method over the remaining expected useful life of the system.

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

(ii) Acquired value of in-force business

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

Amortisation of the acquired VIF balance is performed using the straight-line method over the estimated life of the contracts (20 years). The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the acquired VIF balance is tested for impairment at each reporting date. Further information on the Company's impairment policy is set out at policy (k).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(g) Intangible assets (continued)

(iii) Software development costs

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

Software development costs recognised as assets are valued at cost. Once brought into use, the assets are amortised using the straight-line method over their expected useful lives (7 years). Subsequent expenditure is only capitalised when it increases the expected future economic benefits of the specific asset to which it relates. The amortisation charge for the year in respect of software is recognised through the statement of comprehensive income, within operating expenses

The carrying value of the assets is tested for impairment at each reporting date. Further information on the Company's impairment policy is set out at policy (k).

(iv) Goodwill

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired.

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

(h) Investment in subsidiaries

The Company owns a subsidiary as set out in note 9. This subsidiary provides custody services for non-insured platform investments. This subsidiary is held initially at cost, being the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company's impairment policy is set out at policy (k).

(I) Trade and other receivables

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

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

(j) Accrued income and prepayments

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

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

(k) Cash and cash equivalents

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(l) Impairment

Financial assets

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

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

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

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

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

The loss allowance for trade receivables without a significant financing component is measured at an amount equal to lifetime expected credit losses, in accordance with the simplified approach in IFRS 9.

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

Non-financial assets

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

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

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

(m) Taxes

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

Current tax

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(m) Taxes (continued)

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

Deferred tax

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

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

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

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

(n) 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.

(o) 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 other financial liabilities.

(p) Accruals and deferred income

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

2. Critical accounting judgments or key sources of estimation uncertainty

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

(a) Estimates

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

Intangible assets

Corporate Savings Platform

The initial fair value of the acquired Corporate Savings Platform was determined using the replacement cost method at the time of acquisition. The replacement cost was based on recent actual experience and industry benchmarking. The key assumptions in estimating the fair value were expected future benefits and cost savings and development required to make the platform fit for purpose. Any additional enhancements to the Corporate Savings Platform are capitalised under software development costs. Enhancements capitalised under software development costs include expenditure on migrating existing data to the Corporate Saving Platform when inclusion of the data on the Corporate Saving Platform provides enhanced functionality. The value of the acquired Corporate Savings Platform increased

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Critical accounting judgments or key sources of estimation uncertainty (continued)

(a) Estimates (continued)

Corporate Savings Platform (continued)

during the year due to transfers from software development costs. Any additional enhancements to the Corporate Savings Platform are amortised using the straight-line method over the remaining expected useful life of the system. The carrying value of the assets is tested for impairment at each reporting date as set out in note 1(k).

Management need to estimate future benefits, development costs and potential cost savings. Management also need to estimate future economic benefits of assets in assessing criteria for recognition and impairment. Further information regarding key assumptions and sensitivity analysis on these assets is given in note 8.

Software development costs

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

Acquired value of in-force business

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

Goodwill

The acquisition of the UK savings business from Zurich in 2018 has given rise to goodwill on the Balance Sheet, which was calculated based on the difference between the fair values of the net assets acquired for the UK saving business and the consideration paid. The carrying value of the asset is tested for impairment at each reporting date as set out in note 1(k).

(b) Judgement

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

3. Revenue

	2023	**2022**
	£'000	**£'000**
Pension contract administration	1,146	3,688
Savings business administration	30,591	29,426
Platform build and access services	34,017	55,228
Total	**65,754**	**88,342**

4. Operating expenses

	2023	**2022**
	£'000	**£'000**
Pension contract administration	1,146	3,688
Savings business administration	72,148	58,419
Platform build and access services related:		
Amortisation of intangible assets	12,636	9,826
Implementation costs	22,991	39,787
Other operating expenses	80	42
Total	**109,001**	**111,762**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

5. Auditors' remuneration

	2023	2022
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	63	60
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	175	169
Total	**238**	**229**

Audit fees are borne by another Lloyds Banking Group entity and recharged to the Company.

6. Investment Income

	2023	2022
	£'000	£'000
Interest income on investments held through liquidity funds	2,762	754
Total	**2,762**	**754**

7. Taxation credit

(a) Current year tax credit

	2023	2022
	£'000	£'000
Current tax:		
UK corporation tax	9,447	4,152
Adjustment in respect of prior years	67	(81)
Total current tax	**9,514**	**4,071**
Deferred tax:		
Reversal of temporary differences	66	53
Total deferred tax	**66**	**53**
Total income tax credit	**9,580**	**4,124**

Corporation Tax is calculated at a rate of 23.5 per cent (2022: 19 per cent) of the taxable loss for the year.

(b) Reconciliation of tax credit

	2023	2022
	£'000	£'000
Loss before tax	(40,485)	(22,666)
Tax at 23.50 per cent (2022: 19 per cent)	**9,514**	**4,307**
Effects of:		
Adjustment in respect of prior years	67	(81)
Disallowable expenses	(1)	(102)
Effect of change in tax rate and related impacts	—	—
Total	**9,580**	**4,124**

Effective tax rate is 23.66 per cent for 2023 and 18.20 per cent for 2022.

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

8. Intangible assets

	2023 £'000	2022 £'000
Acquired VIF	4,019	4,301
Goodwill	5,417	5,417
Corporate Savings Platform	47,640	47,692
Software development costs	4,145	12,302
Total	**61,221**	**69,712**

	Acquired VIF £'000	Goodwill £'000	Corporate Savings Platform £'000	Software development costs £'000	Total £'000
Cost					
At 1 January 2022	**5,640**	**5,417**	**54,471**	**19,738**	**85,266**
Additions	—	—	—	12,302	12,302
Transfers to capitalised software	—	—	19,738	(19,738)	—
At 31 December 2022 and 1 January 2023	**5,640**	**5,417**	**74,209**	**12,302**	**97,568**
Additions	—	—	—	4,145	4,145
Transfers to capitalised software	—	—	12,302	(12,302)	—
At 31 December 2023	**5,640**	**5,417**	**86,511**	**4,145**	**101,713**
Accumulated amortisation					
At 1 January 2022	**1,057**	**—**	**16,973**	**—**	**18,030**
Amortisation during the year	282	—	9,544	—	9,826
At 31 December 2022 and 1 January 2023	**1,339**	**—**	**26,517**	**—**	**27,856**
Amortisation during the year	282	—	12,354	—	12,636
At 31 December 2023	**1,621**	**—**	**38,871**	**—**	**40,492**
Carrying amount					
At 31 December 2023	**4,019**	**5,417**	**47,640**	**4,145**	**61,221**
At 31 December 2022	4,301	5,417	47,692	12,302	69,712

The additions to software development costs during the year include £4.1m of additional enhancement to the Corporate Savings Platform.

Of the above total for Corporate Savings Platform, an estimated £35.3m (2022: £47.6m) is expected to be amortised more than 1 year after the reporting date. The remaining amortisation period is 4 years.

Of the above total for acquired VIF, an estimated £3.7m (2022: £4.0m) is expected to be amortised more than 1 year after the reporting date. The remaining amortisation period is 15 years.

As detailed below, £4.1m (2022: £12.3m) of software development costs are related to software in the course of completion and therefore these assets are not yet subject to amortisation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

8. Intangible assets (continued)

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

	2023	2022
	£'000	£'000
At 1 January	12,302	19,738
Additions	4,145	12,302
Transfers to capitalised software	(12,302)	(19,738)
Total	**4,145**	**12,302**

Significant Estimate: Key assumptions used for value in use calculations

A review of the carrying value of the intangible assets (which is a combination both intangibles assets and goodwill) to assess indications of impairment is performed on an annual basis. The recoverable amounts for 2022 and 2023 have both been calculated on a value in use basis.

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

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

- Discount rate 11.0 per cent (2022: 11.20 per cent), based on the IP&I Division weighted average cost of capital.
- Bundled assets under administration increase by an average compound growth rate of 10.0 per cent each year over the 22 year forecast period. The growth rates have been benchmarked against external data for the relevant markets.
- Expenses increase by an average compound growth rate of 2.0 per cent each year over the 22 year forecast period, in line with management's 4 year financial plan and long term expected inflation rates.
- Beyond the 22 year forecast period a long term cash flow growth rate of 3.05 per cent has been applied, which is in line with long term expected pension market growth.

Significant Estimate: Impact of possible changes in key assumptions

The value in use considers both the intangible assets and goodwill together, as they arise from the same business transaction, and the value in use exceeds the carrying value of both combined by approximately £79m. Any of the following changes in assumptions in isolation would cause the recoverable amount to equal its carrying amount:

- a reduction in the bundled asset under administration compound growth rate in the 22 year forecast period from our 10.0 per cent assumption to a revised assumption of a compound growth rate of 9.50 per cent (equivalent of having an average bundled asset base 8.0 per cent lower than forecast every year);
- an increase in the discount rate from our 11.0 per cent assumption to a revised assumption of 13.30 per cent;
- shortfalls in trading performance against forecast resulting in operating cash flows decreasing by 56.0 per cent each year; or
- an increase in inflation rates (RPI) by 1.5 per cent.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

9. Investment in subsidiaries

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

The registered address of the subsidiary is 69 Morrison Street, Edinburgh, United Kingdom EH3 8BW.

Scottish Widows Administration Services (Nominees) Limited (SWASNL) acts as a nominee company to hold legal title to assets beneficially owned by customers of the Company.

10. Trade and other receivables

	2023 £'000	2022 £'000
Trade receivables	2,520	2,307
Amounts due from related parties	11,632	25,880
Other receivables	2,300	2,263
Total	**16,452**	**30,450**

The amounts due from group companies are unsecured, non-interest bearing and repayable on demand. There are no loss allowances on intercompany balances as the risk of default is minimal. Further information in respect of credit risk is given in note 19.

Included in amounts due from related parties is £9.4m (2022: £15.6m) in respect of Corporate Savings Platform build and access services and £0.8m (2022: £0.7m) in respect of fund based charges to policyholders for business administered on the Corporate Savings Platform.

11. Accrued income and prepayments

	2023 £'000	2022 £'000
Accrued income	670	417
Prepayments	249	249
Total	**919**	**666**

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

12. Cash and cash equivalents

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

	2023 £'000	2022 £'000
Cash at bank	9,556	7,839
Investments held through liquidity funds	63,234	43,053
Total	**72,790**	**50,892**

Cash and cash equivalents does not include client monies held on deposit of £77.5m (2022: £79.5m). These amounts are similarly excluded from current liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

13. Share capital

	2023 £'000	2022 £'000
Authorised:		
228,500,000 ordinary shares of £1 each	228,500	188,500
Total	**228,500**	**188,500**

	2023 £'000	2022 £'000
Issued and fully paid share capital:		
228,500,000 (2022: 188,500,000) ordinary shares of £1 each	228,500	188,500
Total	**228,500**	**188,500**

In June 2023, the Company issued ordinary share capital of £40.0m to its parent, SWL. The issued share capital of the Company has increased to £228.5m.

14. Other reserves

	2023 £'000	2022 £'000
Other reserves	44,000	44,000
Total	**44,000**	**44,000**

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

15. Tax assets and liabilities

	2023 £'000	2022 £'000
Current tax recoverable	9,447	4,071
Total tax assets	**9,447**	**4,071**
Deferred tax liabilities	1,004	1,070
Total tax liabilities	**1,004**	**1,070**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

15. Tax assets and liabilities (continued)

(a) Recognised deferred tax

Deferred tax assets and liabilities have been offset in the balance sheet where there is a legally enforceable right of offset. The tables below splits the individual deferred tax assets and liabilities by type, before such netting.

The movement in the deferred tax liability is as follows:

	2023 £'000	2022 £'000
Deferred tax liabilities comprise:		
Brought forward	1,070	1,123
(Credit)/charge for the year	(66)	(53)
Total deferred tax liabilities	**1,004**	**1,070**

The deferred tax credit/(charge) in the year comprises the following temporary differences:

	2023 £'000	2022 £'000
Other temporary differences	66	53
Total	**66**	**53**

The deferred tax liability comprises:

	2023 £'000	2022 £'000
Acquired VIF	1,004	1,070
Total	**1,004**	**1,070**

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023.

16. Trade and other payables

	2023 £'000	2022 £'000
Amounts due to group undertakings	18,594	22,877
Other payables	1,382	1,213
Total	**19,976**	**24,090**

The amounts due to group companies are unsecured, non-interest bearing and repayable on demand. None of the above balances are interest-bearing (2022: none). Further information in respect of liquidity risk is given in note 19.

Included in amounts due to group undertakings is £11.6m (2022: £17.6m) in respect of project costs with Lloyds Bank plc and £6.6m (2022: £4.5m) in respect of legal entity recharge postings with Scottish Widows Services Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

17. Accruals and deferred income

	2023 £'000	2022 £'000
Accrued expenses	333	210
Deferred income	249	249
Total	**582**	**459**

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

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

	2023 £'000	2022 £'000
Financial assets:		
Trade and other receivables	13,998	(10,097)
Accrued income and prepayments	(253)	(313)
Net increase/(decrease) in operating assets	**13,745**	**(10,410)**
Financial liabilities:		
Trade and other payables	(4,114)	2,882
Accruals and deferred income	123	192
Net (decrease)/increase in operating liabilities	**(3,991)**	**3,074**
Net increase/(decrease) in operating assets and liabilities	**9,754**	**(7,336)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

19. Risk management

The Company is a part of Lloyds Banking Group. The principal activity is to act as a platform operator and as a manager for ISAs, Investment Accounts and SIPPs in the United Kingdom. The Company also acts as a service provider to SWL in respect of workplace pensions business on the Corporate Savings Platform and has a contractual basis for charging these services.

The Company provides outsourcing and administration services as well as carrying out oversight of the securities lending programme for companies within the IP&I Division.

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

(a) Financial risks

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

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

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

The timing of the unwind of the deferred tax assets and liabilities is dependent on the timing of the unwind of the temporary timing differences, arising between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes, to which these balances relate.

The sensitivity analyses given throughout this note are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated, for example changes in interest rates and changes in market values. The sensitivity analysis presented also represents management’s assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

(1) Market risk

Market risk is defined as the risk that our capital or earnings profile is affected by adverse market rates, in particular the impact on intangible assets and fund based charges.

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

All of the financial assets of the Company which are measured at fair value, which relate to investments in liquidity funds of £63.2m (2022: £43.1m), are classified in Level 1 of the fair value hierarchy (as defined in note 1 (c)).

In addition to market risk on directly held assets and liabilities the Company has an exposure to indirect market risk. This arises from the fact that the fund based charges collected and associated costs for the management of the funds fluctuate with the market movements impacting the value of customer funds. For example if the underlying market value of customer funds fell by 10.0 per cent, fund based charges are estimated to fall by £3.0m (2022: £2.4m) based on year end values. These are classified as indirect market risks.

(2) 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. A fall in market interest rates will result in a reduction to revenue due to a decrease in the value of underlying customer investments which the Company receives a fund based charge on. An increase in market interest rates would have the opposite effect. The sensitivity analysis illustrates how the fair value of future cash flows in respect of interest-bearing financial assets held by customers will fluctuate because of changes in market interest rates at the reporting date.

	Impact on loss after tax and equity for the year	
	2023	2022
	£'000	£'000
50 basis points (2022: 25 basis points) increase in yield curves	(297)	(132)
50 basis points (2022: 25 basis points) decrease in yield curves	297	132

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

19. Risk management (continued)

(a) Financial risks (continued)

(3) Credit risk

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

Credit risk is managed in line with the Insurance Credit Risk Policy and the wider Lloyds Banking Group Credit Risk Policy which set out the principles of the credit control framework.

Credit risk to the Company arises primarily from exposure to trade recievables and cash equivalents. Exposure to trade receivables is assessed on a case by case basis, using a credit rating agency where appropriate.

Expected credit losses are calculated using three key input parameters: the probability of default (PD) (except for lifetime expected credit losses), the expected loss given default (LGD) and the exposure at default (EAD). The probability of default and expected loss given default are determined using internally generated credit ratings.

Expected credit losses are measured on a collective basis for certain groups of financial assets, such as trade receivables due from external parties which are considered to be homogenous in terms of their risk of default.

The following table sets out details of the credit quality of financial assets that are not impaired:

	2023	2022
	£'000	£'000
Trade and other receivables	16,452	30,450
Cash and cash equivalents	72,790	50,892
Total assets bearing credit risk	**89,242**	**81,342**

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

As at 31 December 2023

	Total	AAA	AA	A	Not rated
	£'000	£'000	£'000	£'000	£'000
Stage 1 assets					
Cash and cash equivalents	9,556	—	—	9,556	—
Trade and other receivables	16,591	—	—	11,632	4,959
Loss allowance	(139)	—	—	—	(139)
Exposure to credit risk	**26,008**	**—**	**—**	**21,188**	**4,820**
Stage 2 assets					
Trade and other receivables	—	—	—	—	—
Loss allowance	—	—	—	—	—
Exposure to credit risk	**—**	**—**	**—**	**—**	**—**
Assets at fair value through profit and loss					
Cash and cash equivalents	63,234	—	—	63,234	—
Total	**89,242**	**—**	**—**	**84,422**	**4,820**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

19. Risk management (continued)

(a) Financial risks (continued)

(3) Credit risk (continued)

As at 31 December 2022

	Total £'000	AAA £'000	AA £'000	A £'000	Not rated £'000
Stage 1 assets					
Cash and cash equivalents	7,839	—	—	7,839	—
Trade and other receivables	30,786	—	—	25,880	4,906
Loss allowance	(336)	—	—	—	(336)
Exposure to credit risk	38,289	—	—	33,719	4,570
Stage 2 assets					
Trade and other receivables	—	—	—	—	—
Loss allowance	—	—	—	—	—
Exposure to credit risk	—	—	—	—	—
Assets at fair value through profit and loss					
Cash and cash equivalents	43,053	—	—	43,053	—
Total	**81,342**	**—**	**—**	**76,772**	**4,570**

Amounts classified as “not rated” in the above table are due from counterparties which are not rated by Standard & Poor’s or an equivalent rating agency.

(i) Concentration risk

Credit concentration risk

Credit concentration risk relates to the inadequate diversification of credit risk.

At 31 December 2023 and 31 December 2022, the Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties where limits applied.

The largest single counterparty is with the Company's immediate parent undertaking, SWL.

	2023 Total £'000	2022 Total £'000
Trade and other receivables:		
Amounts due from HMRC	2,300	2,263
Amounts due from group undertakings	11,632	25,880
Other receivables	2,520	2,307
Cash and cash equivalents:		
Amounts due from group undertakings	—	(37)
Other cash and cash equivalents	72,790	50,928
Total	**89,242**	**81,341**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

19. Risk management (continued)

(a) Financial risks (continued)

(4) Capital Risk (unaudited)

Capital risk is defined as the risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held or that capital is inefficiently deployed across the Company.

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

Within the IP&I Division, capital risk is actively monitored by the Insurance Pensions & Investments Asset Liability Committee (IPI ALCO).

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

The Company's objectives when managing capital are:

- to have sufficient capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders;
- to comply with the regulatory capital requirements set out by the FCA in the UK;
- 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.

Capital support arrangements are in place for the Company, which are provided by SWL. These irrevocable guarantees will come into effect on the occurrence of a material operational risk event impacting their respective capital positions. In addition for Company only, these arrangements will also come into effect on the occurrence of a material reinsured fund default event impacting its capital position. SWL has made these arrangements to provide sufficient capital to maintain regulatory capital adequacy and internal capital surplus requirements of these subsidiaries if such events occur.

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

The table below sets out the regulatory capital held at 31 December in each year for the Company.

	2023 **£'000**	**2022** **£'000**
Regulatory Capital held (unaudited)	79,050	61,530
Regulatory Capital required (unaudited)	18,357	14,947
Surplus Capital	**60,693**	**46,583**

To maintain a surplus over its regulatory capital requirement and meet internal risk appetite, further capital injections will take place to cover future forecast losses, to ensure the Company remains appropriately resourced for the foreseeable future.

All minimum regulatory requirements were met during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

19. Risk management (continued)

(a) Financial risks (continued)

(5) Liquidity risk

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

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

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

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

As at 31 December 2023	**Contractual cash flows (undiscounted)**		
Liabilities	**Carrying amount**	**No stated maturity**	**Less than 1 month**
	£'000	**£'000**	**£'000**
Trade and other payables	19,976	—	19,976
Accruals	333	—	333
Total	**20,309**	**—**	**20,309**

As at 31 December 2022	**Contractual cash flows (undiscounted)**		
Liabilities	**Carrying amount**	**No stated maturity**	**Less than 1 month**
	£'000	**£'000**	**£'000**
Trade and other payables	24,090	—	24,090
Accruals	210	—	210
Total	**24,300**	**—**	**24,300**

20. Related party transactions

Ultimate parent and shareholding

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

20. Related party transactions (continued)

Transactions between the Company and other Lloyds Banking Group companies

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

	2023			
	Income during year	Expenses during year	Payable at year end	Receivable at year end
	£'000	£'000	£'000	£'000
Relationship				
Parent	42,548	—	38	11,632
Other related parties	—	85,941	18,556	—

	2022			
	Income during year	Expenses during year	Payable at year end	Receivable at year end
	£'000	£'000	£'000	£'000
Relationship				
Parent	63,011	—	—	17,286
Other related parties	—	99,163	22,877	8,594

In addition to the balances disclosed in the table, balances of £63.2m (2022: £43.0m) and income of £2.8m (2022: £0.8m) in funds controlled by the Company meeting the definition of related parties.

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 all Directors and IP&IExCo members. Key management personnel, as defined by IAS 24, are employed by a management entity, transactions with this entity are as follows:

Key management compensation:

	2023	2022
	£'000	£'000
Short-term employee benefits	622	383
Post-employment benefits	4	2
Share-based payments	103	75
Total	**729**	**460**

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £337k (2022: £217k).

There were no retirement benefits accruing to Directors (2022: nil) under defined benefit pension schemes. No Directors (2022: no Directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2022: nil).

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

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £62k (2022: £50k). During the year, no Directors exercised share options (2022: no Director) and no Director received qualifying service shares under long term incentive schemes (2022: no Director). Movements in share options are as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

20. Related party transactions (continued)

	2023 Options	2022 Options
Outstanding at 1 January	**1,530,395**	**1,562,501**
Outstanding balance of directors newly appointed in the period	211,126	—
Granted	885,911	605,132
Exercised	(437,688)	(292,415)
Forfeited	(528,322)	(227,283)
Outstanding balance of directors resigned in the period	(391,115)	(117,539)
Outstanding at 31 December	**1,270,307**	**1,530,395**

A review has been undertaken of the presentation of the Directors share options. Accordingly, the prior year disclosure has been changed to better reflect leavers and joiners such that the closing balance of outstanding share options reflects active Directors at each reporting date.

Detail regarding the highest paid Director is as follows:

	2023 £'000	2022 £'000
Apportioned aggregate emoluments	107	87
Apportioned share-based payments	24	35

The highest paid Director did not exercise share options during the year. (2022: The highest paid Director did not exercise share options during the year).

21. Future accounting developments

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

22. Post balance sheet events

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