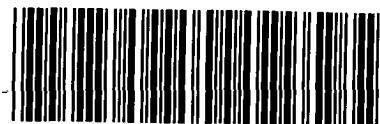


**EMBARK SERVICES LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

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# **EMBARK SERVICES LIMITED**

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# **EMBARK SERVICES LIMITED**

## **Company Information**

### **Directors**

S C Guild  
J T Anderson  
P McMahon  
J Leiper  
S J O'Connor  
D Mackechnie  
D M H Skinner  
P A Davies  
J Lowe

### **Company secretary**

A L Jordan

### **Registered office**

100 Cannon Street  
London  
England  
EC4N 6EU

### **Company registration**

02089815

### **Advisors**

Burges Salmon LLP  
One Glass Wharf  
Bristol  
BS2 0ZX

### **Independent auditor**

Deloitte LLP  
1 New Street Square  
London  
EC4A 3HQ

# EMBARK SERVICES LIMITED

## Strategic Report

### Principal activities

Embark Services Limited ("the Company") is a pension scheme administrator which acts as operator to Self-Invested Personal Pensions ("SIPPs"). There have been no changes to the principal activities of the Company throughout the year. The Company is regulated by the Financial Conduct Authority ("FCA"). The Directors are not aware of any planned major changes in the Company's activity in the next year.

### Results for the period

The key financial performance indicators for the Company are revenue and profit before tax. Financial performance indicators are presented throughout these financial statements and summarised below. The key non-financial performance indicator is client numbers, these are also presented below.

The resulting loss before tax for the year ended 31 December 2022 was £2,632k (2021: £28,423k - restated), with a decrease in total revenue to £8,627k (2021: £9,377k). The decrease in loss for the year arises primarily from a provision of £29.1m (2022: £nil) recognised in the prior period in respect of customer redress on the Company's non-standard investments ("NSI") book and programme costs incurred to date in respect of the review. The fall in revenue is driven by lapses on the complex historic book whilst new business consists of simpler products charged at a lower fee. We expect the decline in revenue to slow in 2023 and the operating model to be revised to reflect the nature of the book.

The comparative results for the prior period have been restated. Further information can be found in note 24.

The number of clients served by Embark Services Limited as at 31 December 2022 and 2021 through SIPPs and Small Self-Administered Schemes ("SSASs") are set out below:

Client Numbers at Year End	2022	Net Change	2021
SIPP	28,268	2,723	25,545
Group SIPP	733	(18)	751
SSAS	276	(19)	295
<b>Total</b>	<b>29,277</b>	<b>2,686</b>	<b>26,591</b>

### Business review

The Directors note that 2022 has been a challenging year for the Company. Despite the challenges, the Company has experienced strong new business growth, particularly through B2B partnerships. Client numbers grew by 9.5% over the course of the year, driven by a 16% growth in client numbers through B2B partnerships. Operationally the business has seen a strong recovery from the Covid-19 pandemic and our focus on customers has been recognised by a 4-star rating at the Financial Advisor Awards.

In January 2022 Scottish Widows Group Limited ("SWG"), a wholly owned subsidiary of Lloyds Banking Group plc ("LBG"), acquired the entire share capital of Embark Group Limited, the Company's immediate parent. From this date LBG became the ultimate controlling party of Embark Group Limited and its subsidiaries ("the Group"). The acquisition by Lloyd Banking Group brings many positives and opportunities to leverage capability within the wider group. This is evidenced in the improved control environment and increased opportunities for our colleagues across the business.

The bespoke SIPP market continues to be impacted by the factors reported in previous years, in particular the challenges relating to the suitability of certain types of non-standard assets. We have commenced a programme to pro-actively review the NSI book which will continue throughout 2023. The company has recognised a provision of £29.1m for customer redress relating to this review, representing our current best estimate of redress required for affected customers. This estimate will be revised periodically throughout 2023 as experience from the review work emerges.

### Future developments

The acquisition by Lloyds Banking Group plc brings opportunities for the Company, both in terms of investing in its people, processes and technology. A strategic programme is in progress to identify and implement solutions to simplify the operating model of the business and to ensure a future proof IT architecture.

The priorities for 2023 include continued focus on improving the control environment and further simplification of the operating model, and concluding the NSI review.

# EMBARK SERVICES LIMITED

## Strategic Report (Continued)

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

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2022, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172. One of the major decisions this year made by Embark Group Limited ("EGL"), which impacted the Company as a wholly owned subsidiary of EGL, was its sale to SWG. The acquisition will help LBG meet more of its customers' broader financial needs of wanting clear, simple and affordable financial planning and retirement products and services by delivering a market-leading, modern and self-managed investment offering for customers.

The Group is a subsidiary of SWG, which in turn is a subsidiary of LBG. As such, the Group follows many of the processes and practices of LBG, which are further referred to in this Statement where relevant. The Group has retained an independent governance structure which is reflected in the independent Group Board and accountability framework, to enable retention of rapid decision making, ability to deliver change at pace, and retention of inherited entrepreneurial culture.

The Board is collectively responsible for the long-term success of the Company. Understanding the views and interests of our key stakeholders (this includes customers, shareholders, communities, the environment, regulators and suppliers), is central to the Group'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.

The Board is responsible for establishing, monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure our obligations to our shareholders, employees, customers and others are met. It is also focused on the wider social context within which the businesses operate, including those issues related to climate change which are of fundamental importance to the planet's well-being.

#### How the Board had discharged its Section 172 duties

The Directors, on appointment and during their induction to the Board, are briefed on their statutory director duties and the standards required. The Board considers it crucial that it maintains a reputation for high standards of business conduct. As such, there have been a number of changes made to the governance framework against an increased focus on corporate governance, capital, liquidity, conduct and senior manager accountabilities in accordance with the Senior Managers & Certification Regime ("SM&CR"), including a number of director changes to strengthen expertise within the Board, in particular diversity. Board reserved matters and delegated authority to management is designed to enable the Board to provide effective, sound and entrepreneurial leadership of the Company within the Group's strategic aims and prudent and effective controls. Stakeholder engagement is embedded in the delegation of authority to the Group CEO and those holding SM&CR accountability for the delivery of the overall management of the Group's business within its defined risk appetite. A Group Executive Committee meets to support the Group CEO and is complemented by a management-led Risk Committee, Customer Committee, Pricing Committee, Change Steering Committee, and a People Committee. The Group CEO, Company 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 proposal put before the Board.

The Directors acknowledge that one of the prime responsibilities of the Board is to deliver the strategy of the Company through effectively managing its customer base, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible conduct standards.

Further details of how the Board considers each of the specific matters set out in section 172, are set out below. Given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

#### Customers

The Board's understanding of customer needs is vital in setting and achieving the Group's strategy and are a key consideration in Board decision-making. The Board ensure the Company, as part of the Group, works towards achieving the Group's customer ambitions and focusing on treating customers fairly. The Group services 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 customer service.

The Board has been particularly focussed on the programme to pro-actively review the NSI book, with detailed progress updates being provided to the Group Risk Committee with challenges from the Board and Committee on design and implementation of the NSI review. The NSI review is expected to continue throughout 2023. The Board reviews the performance of its customer propositions with review, discussion and challenge on product performance and quality of customer service. The Board regularly challenges management from the perspective of the customer, including the development of clearer customer dashboards. The Board has monitored the ongoing integration of the Group since acquisition by SWG, including any impact on customers.

The Board has established a governance framework that aims to treat all customers fairly. The Company's Board Risk Committee monitors the operational performance of customer services and related customer risk matters and scrutinises risk performance to identify where improvements could be made. The Board is committed to a continual process of improvement and embedding of the risk management framework within the Group. A full review of the risk framework took place during 2022, reflecting the recent corporate activity and sale to SWG.

#### Consumer Duty

During the year, the Board discussed its key role in overseeing the Company's implementation of the Financial Conduct Authority's ("FCA") new Consumer Duty principle from 2023. This will strengthen the Company's focus on the delivery of good outcomes for customers, specifically ensure 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 Group recognise the importance of understanding its performance in supporting customers, including how the Group performs relative to its peers. Regular Board updates from management cover a range of relevant internal and external sources. Together these provide important insight that informs Board decision-making.

# EMBARK SERVICES LIMITED

## Strategic Report (Continued)

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

#### Employees

The Directors recognise that our employees are fundamental to our business and delivery of our strategic ambitions. The success of our business depends on attracting, retaining, and motivating employees. This includes ensuring that we remain a responsible employer, offer attractive pay & benefits and desirable workplace environments. The Directors factor the implications of decisions on employees and the wider workforce, where relevant and feasible.

It is the Group's policy that employees are kept informed of business performance including quarterly presentations by the senior management team and regular departmental and team meetings. Employee surveys are carried out to ascertain the views of employees which can be considered when making decisions that affect their interests. Results of employee surveys are reported and discussed at the EGL Nominations and Governance Committees, including the proposed management action plan. These discussions consider the culture of the Company critical to driving good customer outcomes and central to long-term strategic decision making. Employee involvement is also encouraged through an employee suggestion scheme.

The Group is committed to high standards of governance and business conduct for each of its companies. As part of this drive, the Directors and the EGL Nominations and Governance Committee reviewed closely the selection of Embark's nominated holders of senior management functions under the SM&CR, to ensure that the future Board maintained the right balance of gender, skills, and suitability, so that the Company can continue to deliver its strategy. As a result of the review, the corporate governance structure was simplified from multiple separate core entity Board and Committees to a Tier 1 Board and Committee model with common directorships to enable concurrent board meetings to be held, where appropriate, to reduce duplication of matters.

#### Shareholders

The Company is a wholly owned subsidiary of EGL. EGL is a subsidiary of SWG, forming part of the Insurance, Pensions & Investments division of LBG. As part of LBG following acquisition in 2022, the Directors are focused on ensuring that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of LBG, ensuring that the interests of LBG as the Company's ultimate shareholder are duly acknowledged. Further information in respect of LBG's relationship with its shareholders can be found within the Strategic Report section of LBG's 2022 Annual Report and Accounts, which does not form part of this report, available on LBG's website.

The relationship between the Board of the Group and the Board of SWG is supported by the non-executive Chair of the Group also serving as an independent non-executive director of SWG. The Chair of the Board of the Group provides a Chair Report to SWG Board following all Board meetings.

#### Regulators

The Company provides regular updates on its current status to relevant regulators including disclosures on its capital and liquidity position. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The Board is updated on regulatory developments and takes these into account when considering future actions.

The Company provides pension services and administers SIPP accounts for its customers and invest on their behalf. Some of these investments include NSI, which are more complex investments that cannot be readily liquidated. Due to an increase in customer complaints and Financial Ombudsman Service ("FOS") high profile rulings, which identified failure of SIPP providers to conduct the required level of third-party due diligence in accordance with the FCA guiding principles as a basis for awarding customer compensation. This has led the pension companies to review their NSI books.

#### Communities and the Environment

The service-based nature of the Company means it carries a small environmental footprint; however, the Board is committed to ensuring that any impact on the environment is minimised, with corporate responsibility taken very seriously, both in the ways we currently operate, and the potential future impact of any decisions being made. This filters to our office locations through local facility managers to minimise use of power, utilise recycling services and minimising waste. Technology is utilised in all areas to reduce the dependency on paper, printing, and postage.

Technology is further utilised to reduce the amount of travel from location to location, and the Board promote the use of video and online conferencing.

The Group aims for its workforce to reflect the diverse communities in which it operates and recognises that diversity is a key part of a responsible business strategy and supports a strong customer experience. The Group supports local, national, and international charities and actively promotes staff participation in fund raising efforts.

Further information regarding the Company's approach to supporting communities and the environment can be found in the Group's CSR report available from <https://embarkgroup.co.uk/corporate-social-responsibility/>.

# EMBARK SERVICES LIMITED

## Strategic Report (Continued)

### Principal risks and uncertainties

The management of the Group and the execution of the Group's strategy are subject to Board governance against a risk management framework. The Group operates a 'three lines of defence' model and there is a formal structure for identifying, monitoring, and managing risks throughout the Group comprising a risk appetite statement agreed by the Board, detailed risk management policies, independent governance, and risk oversight.

The Board is committed to a continual process of improvement and embedding of the risk management framework within the Group. A full review of the risk framework took place during 2022, reflecting the recent corporate activity and sale to Lloyds Banking Group. This review ensured that all businesses identify both existing and emerging risks in a consistent manner and continue to develop appropriate mitigation strategies within a refreshed Group framework which aligns to the expectations and appetite of the new parent.

The Directors actively monitor and manage potential risks to the Group that could hinder the successful implementation of its strategy. These risks may arise from internal and external events, acts and omissions. The Directors are proactive in identifying, assessing, and managing all risks facing the Group, including the likelihood of each risk materialising in the short or longer term.

Given the nature of activities undertaken by the Embark Group, the Directors believe the principal risks and uncertainties the Group faces are:

- Strategic
- Regulatory & Legal
- Change / Execution
- Operational (including Operational Resilience)
- Data
- People
- Conduct
- Climate
- Market
- Credit
- Funding & Liquidity
- Capital

The risks to the Group have been fully assessed and mitigated to the extent possible and a full risk register is maintained. The principal risks and the approach taken by the Group to mitigate their potential impact are set out below.

#### *Strategic Risk*

Strategic risk is the risk which results from incorrect assumptions about internal or external operating environments; failure to respond or the inappropriate strategic response to material changes in the external or internal operating environments; or failure to understand the potential impact of strategic responses and business plans on existing risk types. This extends to the exposure to weak product and service propositions that are uncompetitive in the market or distribution channels, and sales concentration risk.

The Board is accountable for the setting and oversight of the strategy and associated risk appetite, with regular reporting and challenge on delivery of strategic initiatives and management within risk appetite.

#### *Regulatory & Legal Risk*

The Group operates in a highly regulated and technical industry. The Group's operations are subject to authorisation from the FCA, and supervision from bodies such as the FCA, HMRC and The Pensions Regulator. The risk is that one or more of the companies within the Group does not comply with the relevant requirements and standards of the regulatory framework or there is a change in accepted industry practice which could lead to past liabilities. Regulatory risk also includes the risk of having the 'licence to operate' withdrawn by the regulator, or having conditions applied that adversely impact the Group.

The Group operates a 3 Lines of Defence model; the first line of defence (the business) is accountable for the identification and management of risks; the second line of defence is accountable for oversight and challenge and reports directly to the CEO and the Board; the third line of defence (internal audit) is responsible for independent assurance and this role was outsourced to Mazars, up until the point of sale completion when this activity was transferred to the LBG Internal Audit team.

The Compliance function sits within the second line of defence and is responsible for ensuring all new rules and regulations, as well as changes in industry practice are captured, interpreted, and cascaded across business areas so appropriate action can be taken to ensure compliance with relevant rules and regulations. The Group Board is supported by the Board Risk Committee which is chaired by a non-executive Director where all existing and new risks are reported and scrutinised.

#### *Change/ Execution Risk*

The risk that, in delivering its change agenda, the Group fails to ensure compliance with laws & regulation, maintain effective customer service and availability, and/or operate within the Group's risk appetite. Embark's change agenda, key to its growth strategy, is closely and centrally managed within the Group.

# EMBARK SERVICES LIMITED

## Strategic Report (Continued)

### Principal risks and uncertainties (continued)

#### *Operational Risk*

Operational Risk is defined as the risk of loss from inadequate or failed internal processes, people, and systems, or from external events. It extends to financial crime, cyber risk, and counterparty risk. As a dimension of Operational risk, Operational Resilience risk is defined as the risk of failing to design resilience into business operations, underlying infrastructure, and controls (people, process, technology) to withstand external or internal events which could impact the continuation of operations, and/or failing to respond in a way which meets customers and stakeholder expectations and needs when the continuity of operations is compromised.

The Group actively identifies, assesses, and manages such risks in an effective manner and ensures the risk management approach is embedded into all business activities. The approach is supported by the establishment of risk registers that enable management to identify areas and trends of risks so that they can implement appropriate preventative and corrective measures and controls.

#### *Data Risk*

The risk of failing to effectively govern, manage, and control its data (including data processed by Third Party Suppliers) leading to unethical decisions, poor customer outcomes, loss of value and mistrust.

The Group's Data Protection policy and procedures support compliance with legal and regulatory requirements relating to data privacy, records and data management and set the standards applied across the Group.

#### *People Risk*

The Group's future success is dependent on its ability to attract and retain highly skilled and qualified colleagues to deliver a high level of customer service in a highly regulated sector. To minimise this risk the Group seeks to recruit and retain high quality experienced individuals that align to the values of the Group. To support this, we offer market competitive packages, structured development, and work with colleagues to ensure there is a favourable work environment.

#### *Conduct Risk*

Conduct Risk is defined as the risk of customer detriment across the customer lifecycle including failures in product management, distribution, and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss. The Group has a dedicated Proposition team that is responsible for regularly reviewing and maintaining the various products and services offered throughout the Group with a view to ensuring they remain viable, compliant and represent fair value for money.

#### *Climate Risk*

Climate risk is defined as the risk of losses and/or reputational damage, either from the impacts of climate change and the transition to net zero ('inbound') or as a result of Embark's response to tackling climate change ('outbound'). This encompasses Embark's direct carbon footprint (office and travel policies), climate-related investment exclusions within our Horizon investment funds (e.g. thermal coal and tar sands) and the risk of inadvertently greenwashing within our direct marketing materials and across our investment proposition. Embark has a robust marketing approvals process. Our Horizon funds (for which we are manufacturer) are not labelled as ESG funds, and funds onboarded to our Platforms (where we are distributor) are subject to screening.

#### *Market Risk*

Market risk is the risk that the Group's capital or earnings profile is affected by adverse market rates such as interest rates, foreign exchange rate and equity prices.

The Group's financial instruments primarily comprise cash and cash equivalents, trade payables, loans, and trade receivables. All of these arise because of the Group's day to day operations. The Group does not enter into transactions for speculative purposes and there are no instruments held for trading.

As such the main focus of market risk to which the Group is directly exposed is interest rates in relation to interest earned on cash deposits. External rates are outside the Group's control, so mitigation is via having sufficient financial reserves to cover reduced earnings that may arise.

#### *Credit Risk*

Credit risk is the risk that parties with whom we have contracted, fail to meet their financial obligations. The Group is subject to credit risk through a variety of counterparties through cash held in bank accounts, HMRC receivables and fees receivable from customers.

Credit exposures are appropriately monitored by the firm's Finance function and action is taken where necessary.

#### *Funding & Liquidity Risk*

Funding and liquidity risk is the risk that the Group has insufficiently stable and diverse sources of funding, or insufficient financial resources to meet commitments when they fall due or can only secure them at excessive cost.

Liquidity risk is managed by the firm's Finance function and is mitigated by applying a comprehensive liquidity risk management framework, which includes controls to maintain liquidity at necessary levels, including early warning indicators and contingency funding plans.

# EMBARK SERVICES LIMITED

## Strategic Report (Continued)

### Principal risks and uncertainties (continued)

#### *Capital Risk*

Capital risk is the risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Group. Capital, which includes regulatory capital for the regulated subsidiaries, comprises all components of equity.

Capital risk is managed by the firm's Finance function, which maintains appropriate tools and governance to monitor capital requirements and assign capital accordingly.

The Strategic Report has been approved by the Board of Directors and signed on its behalf by:



S Guild  
Director  
For and on behalf of the Board of Directors  
2 May 2023

# EMBARK SERVICES LIMITED

## Directors' Report

The Directors submit their report together with the audited accounts for the year ended 31 December 2022.

### Business Review

A review for the Company is set out in the Strategic Report on page 4.

### Financial risk management

Details of the Company's financial risk management objectives are given in note 19.

### Results for the year and dividends

The loss after taxation for the year ended 31 December 2022 was £2,012k (2021: £21,531k - restated). The Directors do not recommend the payment of a dividend (2021: £1,800k).

The results of the Company are included in the accounts on pages 16 to 19.

### Directors

The Directors who served in the year and up to the date of this report were:

S C Guild	(Appointed 31 January 2022)
J T Anderson	(Appointed 26 May 2022)
P McMahon	(Appointed 26 May 2022)
J Leiper	(Appointed 31 October 2022)
S J O'Connor	(Appointed 2 December 2022)
D Mackechnie	(Appointed 2 December 2022)
D M H Skinner	(Appointed 2 December 2022)
P A Davies	(Appointed 2 December 2022)
J Lowe	(Appointed 1 February 2023)
V P F Cambonie	(Resigned 31 January 2022)
P Downing	(Resigned 31 January 2022)
D A Lowe	(Appointed 31 January 2022; Resigned 31 August 2022)
C Spencer	(Resigned 31 October 2022)

### Directors Indemnities

Lloyds Banking Group plc has granted to the Directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the Director who joined the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this deed 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 Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

### Employees

It is the Company's policy that employees are kept informed of business performance including regular presentations by the senior management team as well as departmental and team meetings. Employee surveys are carried out to ascertain the views of employees which can be taken into account when making decisions that affect their interests.

The Company is committed to employment policies which follow best practice, based on equal opportunities for all employees. We aim for our workforce to reflect the diverse communities in which we operate and recognise that diversity is a key part of a responsible business strategy and also supports a strong customer experience. We believe a wide band of inclusion increases performance, empowerment, satisfaction, productivity, equity, creativity, respect, and fairness. The focus on diversity attracts and retains top talent, promotes diverse business partnerships, serves the unique needs of our diverse customer base, and allows us to provide enhanced value to our stakeholders. The Company gives full and fair consideration to all applications for employment.

Applications for employment by applicants who have a disability are always fully considered bearing in mind the abilities of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure their employment within the Company continues and that appropriate training and support is arranged. It is the policy of the Group and the Company that the training, career development and promotion of employees with a disability should, as far as possible, be identical to that of other employees and the Company will consider what reasonable adjustments could be made to support their job or working environment that might assist in the performance of their role.

# EMBARK SERVICES LIMITED

## Directors' Report (Continued)

### Going Concern

The Directors have given careful consideration to the future prospects of the Company in deciding upon the appropriateness of the going concern basis of preparation. The financial position of the Company, its cash flows, liquidity, and financial position have been reviewed by the Directors for the next 12 months and beyond, taking into account uncertainties within the forecasts arising from both internal and external market factors. The liquidity and financial position of the Company's immediate parent undertaking, Embark Group Limited, and the wider Group have also been considered as part of the review.

Furthermore, the directors are satisfied that it is the intention of Lloyds Banking Group plc (LBG) that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future. The Company is covered by the letter of support from LBG dated 21 February 2023, which confirms that LBG currently intends to support the Company in meeting its financial liabilities as they fall due.

Subsequent to the reporting date, in March 2023, the company issued 30,600,000 ordinary shares to the parent undertaking, Embark Group Limited, for a total consideration of £30,600,000. This additional cash flow has been included in management's going concern assessment.

Based on this review, the Directors are comfortable that the Company has adequate resources available to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

### Future Developments

Factors likely to affect the future developments of the Company have been disclosed in the Strategic Report on page 4.

### Political Donations

Political donations during the year were £nil (2021: £nil).

### Subsequent events

Further information on subsequent events is set out in note 23.

### Streamlined Energy and Carbon Reporting

The Company has taken an exemption from Streamlined Energy and Carbon Reporting (SECR), in its own Directors' Report as it is included within the group SECR report given in the Lloyds Banking Group plc 2022 Annual Report and Accounts, available on the Lloyds Banking Group plc website.

### 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.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the company's financial statements in accordance with international 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# EMBARK SERVICES LIMITED

## Directors' Report (Continued)

### Disclosure of information to auditor

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

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

### Auditor

Following the resignation of KPMG LLP, Deloitte LLP were appointed as auditors of the Company by resolution of the members on 26 September 2022.

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 reappointed for the next financial year and Deloitte LLP will therefore continue in office.

The Directors' Report has been approved by the Board of Directors and signed on its behalf by:



S Guild  
Director  
For and on behalf of the Board of Directors  
2 May 2023

# EMBARK SERVICES LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EMBARK SERVICES LIMITED

### Report on the audit of the financial statements

#### Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements of Embark Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards 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 statement of financial position;
- the statement of changes in equity;
- the cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 24.

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

#### Basis for qualified opinion

As set out in note 14 of the financial statements, the directors have included a provision of £29.1m (2021 £29.1m) and there is an associated deferred tax balance of £7.3m (2021 £7.3m), relating to probable costs of redress relating to historical conduct issues around the level of due diligence carried out on non-standard investments, within Self-Investment Personal Pension products held by customers of the company. While the directors have engaged with the Financial Conduct Authority (FCA) and set in process a project team to work through the redress, the process is not yet completed and the population of the valuation of the affected investments, which is a driver of potential redress, is not known as at 31 December 2021 or 31 December 2022. Therefore, we were unable to obtain sufficient appropriate audit evidence in relation to the appropriateness of the provision and associated deferred tax balances. Any changes to the input data or the assumptions would impact the provision and associated deferred tax balances, with a corresponding impact on the profit or loss for the related years. As a result of this, the previous auditor also qualified its audit opinion on the financial statements for the year ended 31 December 2021. In addition, were any adjustment to the provision balance be required, the strategic and directors' report would also need to be amended.

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 qualified 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.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the provision balance. We have concluded that where the other information refers to the provision balance, it may be materially misstated for the same reason.

# EMBARK SERVICES LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EMBARK 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.

### Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://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 the directors 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 UK Companies Act, pensions legislation, 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 FSMA 2000.

We discussed among the audit engagement team including relevant internal specialists such as tax and IT specialists 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 the following areas, and our specific procedures performed to address them are described below:

- Revenue recognition in relation to the company's annual fees. These fees are split, with a portion recognised up front, with the remaining balance deferred and recognised over the term the service is provided. Therefore there is judgment involved in determining this split as it is based on the estimated costs to complete. We have assessed the accuracy of management's estimate of costs to complete by comparing to actual costs incurred during the year and assessed the calculation completed by management in determining this deferral split.
- Provisions in relation to the company's probable costs of redress relating to historical conduct issues around the level of due diligence carried out on non-standard investments, within Self-Investment Personal Pension products held by customers of the company. As set out in the basis for qualified opinion section of our report, the directors have not completed an exercise to identify the population of the affected investments and we have qualified our audit report accordingly in respect of this matter.

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

# EMBARK SERVICES LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EMBARK SERVICES LIMITED (Continued)

### Report on other legal and regulatory requirements

#### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, 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.

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, 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

Arising solely from the limitation on scope of our work relating to the provision and associated deferred tax balances, referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records had been kept by the company.

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

- 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.

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.



Tom Noble, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Bristol, UK  
2 May 2023

## EMBARK SERVICES LIMITED

### Statement of Comprehensive Income For the year ended 31 December 2022

	Notes	2022 £'000	2021 (restated *) £'000
Revenue	2	8,627	9,377
Administrative expenses		(11,016)	(8,528)
Provisions	14	-	(29,100)
Impairment loss on trade receivables	11	(175)	(102)
<b>Loss from operations</b>	3	(2,564)	(28,353)
Net investment expense	7	(68)	(70)
<b>Loss before tax</b>		(2,632)	(28,423)
Tax	8	620	6,892
<b>Total comprehensive loss for the year</b>		(2,012)	(21,531)

All results are derived from continuing operations.

The Company has no other items of comprehensive income and as such the Statement of Comprehensive Income agrees to the profit/loss for the year.

The notes on pages 20 to 36 form an integral part of the financial statements.

\* Refer to note 24 for details regarding the prior year restatement

# EMBARK SERVICES LIMITED

## Statement of Financial Position At 31 December 2022

	Notes	2022 £'000	2021 (restated *) £'000
<b>Non-current assets</b>			
Property, plant and equipment	9	-	4
Deferred tax asset	10	7,858	7,275
		7,858	7,279
<b>Current assets</b>			
Trade and other receivables	11	2,430	7,858
Current tax assets	8	199	-
Cash and cash equivalents	12	4,905	600
		7,534	8,458
<b>Total assets</b>		15,392	15,737
<b>Current liabilities</b>			
Trade and other payables	13	(5,480)	(3,440)
Provisions	14	(29,732)	(30,209)
Lease liabilities	15	-	(5)
<b>Total liabilities</b>		(35,212)	(33,654)
<b>Net current assets</b>		(27,678)	(25,196)
<b>Net assets</b>		(19,820)	(17,917)
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	16	3,547	3,547
Capital contribution reserve		-	159
Retained losses		(23,367)	(21,623)
<b>Total equity</b>		(19,820)	(17,917)

Registered No. 02089815

The notes on pages 20 to 36 form an integral part of the financial statements.

\* Refer to note 24 for details regarding the prior year restatement

The financial statements were approved by the Board of Directors and authorised for issue on 2 May 2023. They were signed on its behalf by:

*Scott Guild*

S Guild  
Director

# EMBARK SERVICES LIMITED

## Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital £'000	Capital contribution reserve £'000	Retained earnings/ (losses) £'000	Total equity £'000
<b>Balance at 1 January 2021</b>	5,347	52	(114)	5,285
Total comprehensive loss for the year (restated *)	-	-	(21,531)	(21,531)
Reduction of share capital	(1,800)	-	1,800	-
Dividend paid to parent	-	-	(1,800)	(1,800)
Equity-settled share-based payment transactions	-	107	22	129
<b>Restated balance at 31 December 2021</b>	3,547	159	(21,623)	(17,917)
Total comprehensive loss for the year	-	-	(2,012)	(2,012)
Equity-settled share-based payment transactions	-	(159)	268	109
<b>Balance at 31 December 2022</b>	3,547	-	(23,367)	(19,820)

The notes on pages 20 to 36 form an integral part of the financial statements.

\* Refer to note 24 for details regarding the prior year restatement

# EMBARK SERVICES LIMITED

## Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Net cash from/(used in) operating activities	17	4,378	(488)
<b>Investing activities</b>			
Net interest paid		(68)	(69)
Net cash used in investing activities		(68)	(69)
<b>Financing activities</b>			
Payment of lease liabilities		(5)	(7)
Dividends		-	(1,800)
Net cash outflow from financing activities		(5)	(1,807)
Net increase/(decrease) in cash and cash equivalents		4,305	(2,364)
Cash and cash equivalents at beginning of year		600	2,964
<b>Cash and cash equivalents at end of year</b>	12	<b>4,905</b>	<b>600</b>

The notes on pages 20 to 36 form an integral part of the financial statements.

# **EMBARK SERVICES LIMITED**

## **Notes to the financial statements**

### **1. Accounting policies**

Embark Services Limited (the 'Company') is a Company limited by shares and incorporated and domiciled in the UK. The registered number is 02089815 and the registered address is 100 Cannon Street, London, England, EC4N 6EU.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### **Basis of preparation**

The Company's financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standard ("UK-adopted IFRS").

The financial statements have been prepared under the historical cost convention. The financial statements have been prepared in pounds sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The Directors have given careful consideration to the future prospects of the Company in deciding upon the appropriateness of the going concern basis of preparation. The financial position of the Company, its cash flows, liquidity, and financial position have been reviewed by the Directors for the next 12 months and beyond, taking into account uncertainties within the forecasts arising from both internal and external market factors. The liquidity and financial position of the Company's immediate parent undertaking, Embark Group Limited, and the wider Group have also been considered as part of the review.

Furthermore, the directors are satisfied that it is the intention of LBG that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future. The Company is covered by the letter of support from LBG dated 21 February 2023, which confirms that LBG currently intends to support the Company in meeting its financial liabilities as they fall due.

Based on this review, the Directors are comfortable that the Company has adequate resources available to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

#### **Cash Flow Statement**

The Statement of Cash Flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, impairment of property, plant and equipment and intangible assets, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing of financing activities are eliminated. Interest received or paid is classed as investing cash flows.

#### **New standards and interpretations**

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2023 and in later years (including IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors). These amendments are not applicable for the year ended 31 December 2022, have not been applied in preparing these financial statements and are not expected to have a significant impact on the Company.

#### **Segmental reporting**

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Company which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker is the Board of Directors.

The Board of Directors considers the results of the Company as a whole when assessing the performance of the Company and allocating resources. Accordingly, the Company has a single operating segment.

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 1. Accounting policies (continued)

#### Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the Statement of Financial Position date and the reported revenue and expenses during the reporting year.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below:

#### *Allowances for non-recoverability of trade receivables (accounting estimate)*

An allowance for non-recoverability of trade receivables is made where, in the opinion of the Directors, trade receivables are not recoverable at their book value. Any trade receivables where it is felt that recovery of the debt is uncertain are provided against in full as per the Group policy. Trade receivables are stated net of related allowances for non-recoverable debts.

The Directors consider that the carrying amount of loans and receivables, after taking account of related allowances, approximates to their fair value.

Trade receivables that are neither past due nor impaired are considered by the Directors to be credit worthy on the basis that they have been subject to the Company's credit check procedures.

The key assumption in the allowance for non-recoverability of trade receivables is the weighted average loss rate disclosed in note 11. Sensitivity analysis on the key assumption has been performed. A 10% increase in the weighted average loss rate for receivables greater than 9 months old would result in an increase in the loss allowance of £51k.

#### *Determining deferred income under IFRS 15 (accounting judgement)*

Management have applied judgement when determining the way in which performance obligations for delivery of services to customers are satisfied over time. These judgements are a fundamental element in dictating the way in which revenue is released to the Statement of Comprehensive Income. When building these judgements management have assessed all available data and resources to ensure the judgements accurately reflect the delivery of service-related performance obligations.

Sensitivity analysis on the key assumption of satisfying performance obligations has been performed. As billing relates to a maximum period of one year and there have been no significant changes in delivery of services during the year, changes to the assumption would not lead to a material impact on the Company's revenue for the year.

#### *Provision for Customer Complaints (accounting estimate)*

There has been an increase in customer complaints in addition to recent FOS high-profile rulings, which identified failure of SIPP providers to conduct the required level of third-party due diligence in accordance with the FCA guiding principles as a basis for awarding customer compensation.

This has led the Company to review all its due diligence complaints cases and provide for complaints where the Company has identified a risk of a negative outcome to be likely, based on the outcome of known cases and where a reliable estimate of the compensation can be made.

A review of the wider pensions book is being conducted to determine whether there are any similar historical business patterns to these recent cases which might bring further exposure. Whilst it may be argued that there is a present obligation and a probable outflow of economic resources, the programme remains at a relatively early stage. The detailed review process is expected to take between nine and twelve months to complete, where at this stage a reasonable estimate of £29.1m has been determined as an additional provision.

Due to the early stage of the review, determining the amount of the provision requires the exercise of significant judgement and also includes estimation uncertainty which may result into material adjustment of the amount recognised in the next financial year. This requires forming a view on matters which are inherently uncertain and the actual number of customers eligible for redress will only be known once the pro-active review program and information gathering is complete and detailed calculations of redress can be performed.

Consequently, the continued appropriateness of the underlying assumptions will be reviewed against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

In assessing the reasonable range of possible outcomes, the following factors have been considered:

- whether investments were made prior to SIPP Regulation
- % of impaired assets
- primary and secondary time bar limitations
- additional limitation factors
- impact of communication strategy
- investment return (indexation)

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 1. Accounting policies (continued)

#### *Provision for Customer Complaints (continued)*

Of these judgements, we have performed a sensitivity analysis on the following three assumptions, considered the most significant and material to the value of the provision.

Assumptions	Assumption used	Sensitivity applied	Sensitivity (increase or decrease in provision)
% of non-impaired assets	50%	+/- 10% change	£5.8m decrease/increase in provision
Time bar limitations	40%	+/- 10% change	£4.9m decrease/increase in provision
Response rates	60%	+/- 10% change	£4.9m increase/decrease in provision

See note 14 for further details.

#### **Profit/Loss from operations**

Profit/Loss from operations is stated after the inclusion of all operating items, but before financing costs and income from investments.

#### **Revenue recognition**

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue in line with the provision of the service to the customer over the duration of the contract. Revenue recognition for the Company's principal activities is described below:

- Routine activity fees are recognised at a point in time on completion of the specified activity, net of VAT.
- Initial set up and transaction fees are recognised at a point in time as the service is provided, net of VAT.
- Annual fees are settled up front, deferred on the Statement of Financial Position and recognised over time in line with the provision of the service, net of VAT.
- Interest received on cash balances that is in excess of that payable to customers is retained by the Company and is included within revenue, calculated and recognised on an accruals basis.

Payment terms for activity, transaction and annual fees are 30 days.

#### **Employee benefits**

The Company operates a defined contribution pension scheme. The Company pays contributions to employees' individual pension plans on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense in the periods during which services are rendered by employees.

#### **Income tax**

##### *Current income tax*

Current income tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Where the Company has tax losses that can be relieved only by carried-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the Statement of Financial Position.

##### *Deferred income tax*

Deferred income tax is recognised in respect of temporary timing differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the Statement of Financial Position and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The principal differences arise from trading losses, depreciation of property, plant and equipment and relief on research and development expenditure.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used, and deferred tax liabilities are provided on taxable temporary differences. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or the deferred tax liability settled.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 1. Accounting policies (continued)

#### Intangible assets

Purchased intangible assets and costs directly associated with the development of systems are capitalised as intangible assets where there is an identifiable asset controlled by the Company and will generate future economic benefits in accordance with IAS 38. Amortisation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Computer software	3 years
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Amortisation rates, methods and the residual values underlying the calculations of amortisation of intangible assets are kept under review to take account of any change in circumstances.

All intangible assets are reviewed annually for impairment or more frequently if there are indications that assets might be impaired.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold improvements	5 years
Computer equipment	3 years
Furniture and equipment	5 years
Right-of-use assets	Over lease term

Depreciation rates, methods and the residual values underlying the calculations of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### Financial instruments

##### (i) Classification

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). Financial assets (unless it is a trade receivable without a significant financing component) and financial liabilities are measured at FVTPL. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

##### (ii) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

##### (iii) Subsequent measurement and gains and losses

Financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial liabilities are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 1. Accounting policies (continued)

#### Financial instruments (continued)

##### (iv) Impairment

The Company recognises loss allowances for expected credit losses ("ECLs") on financial assets. The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held).

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

##### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

##### Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

#### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses. Detailed disclosures are provided in note 14.

# **EMBARK SERVICES LIMITED**

## **Notes to the financial statements**

### **1. Accounting policies (continued)**

#### **Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' in the Statement of Financial Position

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method and is re-measured when there is a change in future lease payments arising from a change in an index or rate. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **Share-based payments**

Embark Group Limited, the ultimate parent undertaking, operates long term incentive arrangements in which Company employees have participated. These long-term incentives include share-based employee compensation arrangements. The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, are recognised as an employee benefit expense in the Statement of Comprehensive Income in the year to which the award relates.

The cost of the incentive scheme is based on the fair value of awards on the date of grant. The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non-market-based vesting to reflect the conditions prevailing at the Statement of Financial Position date. Fair value is measured by the use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non-transferability, exercise restrictions and behavioural considerations.

The total expense is charged to the Statement of Comprehensive Income with the associated credit taken to a share option reserve in equity. At the end of the vesting period, upon lapse or forfeit if earlier, this credit is transferred to retained earnings from the share option reserve.

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 2. Revenue

#### (i) Disaggregation of revenue

An analysis of the Company's revenue is as follows:

	2022 £'000	2021 £'000
Rendering of services, in the UK	8,627	9,377

All revenue arises from the Company's principal activity and represents fees charged and associated revenue earned on the single class of business being pension administration services. Turnover arises entirely in the UK.

Timing of transfer of goods or services:

	2022 £'000	2021 £'000
Products and services transferred at a point in time	1,007	1,076
Products and services transferred over time	7,620	8,301
	8,627	9,377

#### (ii) Contract balances

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers.

	Notes	31 December 2022 £'000	31 December 2021 £'000
Receivables	11	825	711
Contract liabilities	13	1,432	1,544

The contract liabilities primarily relate to the advance consideration received from customers for the rendering of services over an annual period.

The amount of revenue recognised in current period that was included in the contract liability balance at the beginning of the period was £1,432k.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

2022	Contract liabilities £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	1,544
Increases due to cash received, excluding amounts recognised as revenue during the period	1,432
	112

All of the Company's contracts have an expected duration of one year or less and the Company therefore applies the practical expedient in IFRS 15.121 and does not disclose information about its remaining performance obligations.

### 3. Profit/Loss from operations

Profit/Loss from operations of the Company has been arrived at after charging:

	2022 £'000	2021 £'000
Amortisation of intangible assets	-	4
Depreciation of property, plant and equipment (see note 9)	4	22
Profit on disposal of property, plant and equipment	-	8
Staff costs (see note 5)	3,855	4,742

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 4. Auditor's remuneration

	2022 £'000	2021 £'000
<b>Fees payable to the Company's auditor</b>		
Statutory audit of these financial statements	90	79
Audit-related assurance services	20	14
	110	93

### 5. Staff costs

The average monthly number of employees (including executive Directors) employed by the Company was:

	2022 No.	2021 No.
Management	5	7
Non-management	92	121
	97	128

Their aggregate remuneration comprised:

	2022 £'000	2021 £'000
Wages and salaries	3,246	4,004
Social security costs	344	394
Other pension costs	156	215
Share-based compensation costs	109	129
	3,855	4,742

Staff costs include £279k (2021: £1,994k) recharged to other companies within the Group.

### 6. Directors' emoluments

The Directors' aggregate emoluments in respect of qualifying services were:

	2022 £'000	2021 £'000
Salaries and fees	103	235
Pension contributions	16	15
Benefits	-	8
	119	258

Emoluments of highest paid Director:

	2022 £'000	2021 £'000
Total emoluments (excluding pension contributions)	95	164
Pension contributions	16	15
Benefits	-	6
	111	185

The number of Directors that accrued benefits under Group pension schemes was 1 (2021: 1).

The total amount paid to Directors of the Company during the year was £2,469k (2021: £938k). This expense has been allocated across companies within the Group where there are common directorships. The total emoluments of the highest paid Director of the Company was £788k (2021: £184k).

### 7. Net Investment expense

	2022 £'000	2021 £'000
Interest on bank deposits	11	-
Interest payable and similar charges on bank deposits	(79)	(69)
Interest payable on lease liabilities	-	(1)
	(68)	(70)

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 8. Tax

Analysis of tax charge for the year:

	2022 £'000	2021 (restated *) £'000
<b>Current tax:</b>		
UK corporation tax at 19.00% (2021: 19.00%)	-	-
Total current tax credit	-	-
<b>Deferred tax (note 10):</b>		
Origination and reversal of timing differences	(229)	(7,070)
Adjustment in respect of prior periods	(367)	-
Derecognition of deferred tax asset	-	299
Effect of tax rate change on opening balance	(24)	(121)
Total deferred tax credit	(620)	(6,892)
<b>Total tax credit</b>	<b>(620)</b>	<b>(6,892)</b>

The effective tax rate for the year is greater than (2021: greater than) the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%). This is explained below:

	2022 £'000	2021 (restated *) £'000
Loss before tax	(2,632)	(28,423)
Tax at the UK corporation tax rate of 19.00% (2021: 19.00%)	(500)	(5,400)
Tax effects of:		
Expenses not deductible for tax purposes	194	27
Adjustment to tax charge in respect of previous periods	-	-
Adjustment to tax charge in respect of previous periods – deferred tax	(367)	-
Derecognition of deferred tax asset	-	299
Income not taxable for tax purposes	-	-
Remeasurement of deferred tax for changes in tax rates	(13)	(1,818)
Group relief surrendered/(claimed)	66	-
<b>Total tax credit</b>	<b>(620)</b>	<b>(6,892)</b>

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

Current tax assets relate to amounts that the Company expects to receive from connected companies in respect of group relief within the next 12 months.

\* Refer to note 24 for details regarding the prior year restatement

### 9. Property, plant and equipment

	Furniture and equipment £'000
<b>Cost</b>	
At 1 January 2022	32
Disposals	-
At 31 December 2022	32
<b>Accumulated Depreciation</b>	
At 1 January 2022	28
Charge for the year	4
Disposals	-
At 31 December 2022	32
<b>Net book value</b>	
At 31 December 2022	-
At 31 December 2021	4

Property, plant and equipment includes right-of-use assets of £nil (2021: £4k) related to leased assets that do not meet the definition of investment property (see note 15).

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 10. Deferred tax

Deferred tax assets recognised by the Company and the movements thereon during the current and prior reporting periods.

	2022	2021 (restated *)
	£'000	£'000
At 1 January	7,275	383
Credit/(Charge)	583	6,892
At 31 December	7,858	7,275

The deferred tax asset is made up as follows:

	2022	2021 (restated *)
	£'000	£'000
Accelerated capital allowances	10	-
Short term temporary differences	80	-
Tax losses carried forward	7,768	7,275
Balance at 31 December	7,858	7,275

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit is probable. At the balance sheet date, a deferred tax asset has been recognised based on the expectation that the Company will be able to benefit from group relief with connected companies.

\* Refer to note 24 for details regarding the prior year restatement

### 11. Trade and other receivables

	2022	2021
	£'000	£'000
Trade receivables	825	711
Other debtors	1,500	1,411
Prepayments	34	56
Amounts owed from Group Companies	71	5,680
	2,430	7,858

Of the above total, £nil (2021: £nil) is expected to be settled more than one year after the reporting date.

An allowance for non-recoverability of trade receivables has been made where, in the opinion of the Directors, trade receivables are not recoverable at their book value. Any trade receivables where it is felt that recovery of the debt is uncertain are provided against in full as per the Group policy. Trade receivables are stated net of related allowances for non-recoverable debts.

Trade receivables are non-interest bearing and generally have credit terms ranging from 14 to 30 days. Trade receivables that are neither past due nor impaired are considered by the Directors to be credit worthy on the basis that they have been subject to the Company credit check procedures.

As at 31 December 2022 trade receivables of £669k (2021: £569k) were past due but not impaired for the Company. The ageing analysis of these trade receivables is as follows:

	2022	2021
	£'000	£'000
Up to 3 months past due	251	213
3 to 6 months past due	120	116
Over 6 months past due	298	240
	669	569

#### Expected credit loss assessment

The Company uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a large number of small balances. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2022.

31 December 2022	Weighted- average loss rate	Gross carrying amount £'000	Loss allowance £'000	Credit- impaired
< 9 months past due	0.15%	656	(1)	No
9 – 12 months past due	41.35%	104	(43)	No
> 12 months past due	82.62%	627	(518)	Yes
		1,387	(562)	

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 11. Trade and other receivables (continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2022.

31 December 2021	Weighted-average loss rate	Gross carrying amount £'000	Loss allowance £'000	Credit-impaired
< 9 months past due	0.17%	588	(1)	No
9 – 12 months past due	42.35%	85	(36)	No
> 12 months past due	83.18%	422	(351)	Yes
		1,095	(388)	

Loss rates are based on actual historic credit loss experience. These rates are multiplied by scalar factors to reflect current economic conditions and the Company's view of economic conditions over the expected lives of the receivables.

The majority of the Company's customers are individuals or counterparties not issued ratings by credit ratings agencies, therefore customer credit ratings have not been disclosed.

The movement in the provision for impairment of receivables was as follows:

	2022 £'000	2021 £'000
At 1 January	387	296
Write-offs in the year	-	(11)
Increase for the year	175	102
At 31 December	562	387

### 12. Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank and in hand	4,905	600

The Directors consider that the carrying amount of these assets approximates to their fair value. The credit risk on liquid funds is limited because the counterparties are large, established UK banks.

### 13. Trade and other payables

	2022 £'000	2021 £'000
Bank overdraft	1,072	1,095
Trade payables	213	99
Other payables	22	19
Accruals	1,034	254
Deferred income	1,432	1,544
Other tax and social security	376	174
Amounts owed to Group Companies	1,331	255
	5,480	3,440

Of the above total, £nil (2021: £nil) is expected to be settled more than one year after the reporting date.

No interest is charged on trade and other payables.

Deferred income relates to income charged to clients in advance of the period to which the service relates. The related income charged to clients does not become repayable if a contract is terminated before its due date.

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 14. Provisions

Provisions are recognised for present obligations arising as the consequence of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated.

The Company held the following provisions at the year-end date:

	Customer Redress Provision £'000
Balance at 1 January 2022 (restated *)	30,209
Charged to the Income Statement	-
Used during the year	(477)
Unused amount reversed during the year	-
Increase due to unwinding of discount and other movements	-
Closing provision at 31 December 2022	29,732
Non-current, to be utilised in more than one year	-
Current – to be utilised within one year	29,732
Closing provision at 31 December 2022	29,732

\* Refer to note 24 for details regarding the prior year restatement

There has been an increase in customer complaints in addition to recent FOS high-profile rulings, which identified failure of SIPP providers to conduct the required level of third-party due diligence in accordance with the FCA guiding principles as a basis for awarding customer compensation. This has led the Company to review its due diligence complaints cases, where as part of a wider NSI book review to understand any exposure relating to similar business patterns, the Company has identified a negative outcome is likely and has made an additional provision of £29.1m. The programme remains at a relatively early stage, however management now consider it possible to determine a reasonable possible range of outcomes and a best estimate of the future outflow.

The initial in-scope population has been identified and critical factors which will drive the review have been identified and assessed. The value of the provision has been calculated by applying a number of judgements and assumptions to the in-scope population to arrive at a best estimate of the liability. Further details and sensitivities around these judgements can be found in note 1.

The provision is included within the amount charged to the income statement above.

### 15. Leases

#### Right-of-use assets

Right-of-use assets relate to office equipment and are presented as property, plant and equipment. Leases for office equipment are under contract terms of up to 6 years from the lease start date.

	Furniture and equipment £'000
<b>2022</b>	
Balance at 1 January	4
Depreciation charge for the year	(4)
Derecognition of right-of-use assets	-
Balance at 31 December	-

#### Lease liabilities

	2022 £'000	2021 £'000
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	-	-
One to five years	-	-
More than five years	-	-
Total undiscounted lease liabilities at 31 December	-	-

	2022 £'000	2021 £'000
<b>Lease liabilities included in the statement of financial position</b>		
Current	-	5
Non-current	-	-
Lease liabilities included in the statement of financial position at 31 December	-	5

#### Amounts recognised in profit or loss

	2022 £'000	2021 £'000
<b>Leases under IFRS 16</b>		
Interest on lease liabilities	-	1

## EMBARK SERVICES LIMITED

### Notes to the financial statements

#### 16. Share capital

	2022 £'000	2021 £'000
<b>Issued and fully paid:</b>		
3,547,000 (2021: 3,547,000) voting ordinary 'A' shares of £1 each	3,547	3,547
	3,547	3,547

All shares were owned 100% by the Company's parent Embark Group Limited.

#### 17. Notes to the Statement of Cash Flows

	2022 £'000	2021 (restated *) £'000
Profit/(Loss) from operations	(2,564)	(28,353)
Adjustments for:		
Movement in provisions	(302)	29,191
Amortisation of intangible assets	-	4
Depreciation on property, plant and equipment	4	22
Adjustments for EMI scheme	109	129
Profit/(Loss) on disposal of property, plant and equipment	-	8
Operating cash flows before movements in working capital	(2,753)	1,001
Decrease/(Increase) in receivables	5,253	(710)
Increase/(Decrease) in payables	2,040	(779)
Taxation	(162)	-
Cash generated from/(used in) operations	4,378	(488)
<b>Net cash flow from/(used in) operating activities</b>	<b>4,378</b>	<b>(488)</b>

\* Refer to note 24 for details regarding the prior year restatement

#### 18. Retirement benefit scheme

The Company operates a defined contribution pension scheme which is open to all staff.

An amount of £156k (2021: £215k) was recognised as an expense for defined contribution plans. The amount is included in staff costs in the Statement of Comprehensive Income.

#### 19. Financial risk management

The Company's financial instruments primarily comprise cash and cash equivalents, trade payables, loans, and trade receivables. All of these arise as a result of the Company's normal operations. The Company does not enter into transactions for speculative purposes and there are no instruments held for trading.

The Company's operations expose it to a variety of financial risks that include the effects of the changes in credit risk, liquidity risk, market risk and capital risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company through proactive oversight and monitoring of key financial risks.

The Directors believe the main financial risks arising from the Company's financial instruments are credit risk, liquidity risk, market risk and capital risk. These are further discussed below;

##### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's recoverability of fees billed to customers and counterparties.

The Chief Financial Officer is responsible for managing the Company's credit risks through the following:

- Limiting the amount of exposure to any one party;
- Only dealing with creditworthy counterparties;
- Embedding suitable processes to recover debt when it becomes overdue; and
- Ensuring a suitable provision for bad and doubtful debt is maintained.

A summary of the current position on Company receivables is included in the trade and receivables note.

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 19. Financial risk management (continued)

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The maximum credit exposure to credit risk at the reporting date was:

	2022 £'000	2021 £'000
Cash and cash equivalents	4,905	600
Trade & other receivables	2,430	7,858
	7,335	8,458

#### Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income. The objective of the Company's market risk management strategy is to manage and control the market risk exposures within acceptable parameters to ensure the Company's solvency while optimising the return.

The Company is exposed to interest rate risk as a result of positive holding of corporate cash balances which earn interest at a variable rate.

The Company has interest bearing assets and liabilities on its Statement of Financial Position. These assets include cash and borrowings which earn or charge interest at a variable rate.

Given the size of the Company, there is no requirement for a separate treasury department; therefore, the finance department review the level of cash balances within the business on a daily basis and ensure the utilisation of its cash balances is optimised.

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's Board of Directors sets the Company's risk appetite and policy for managing liquidity risk. The Finance function manages the Company's liquidity position on a day-to-day basis under the oversight of the Chief Financial Officer. The Company's approach is to ensure that it can meet payments as they fall due, both in normal conditions and in the case of a severe liquidity stress, and that it can survive a severe liquidity stress event and continue as a going concern. The key elements of the Company's liquidity strategy are as follows:

- Building a business that is cash generative;
- Maintaining at all times a stock of liquid assets that are of sufficient quality and quantity so as to be able to withstand the Company's liquidity stress scenarios;
- Monitoring liquidity risk exposures on an ongoing basis under a variety of market-wide and idiosyncratic liquidity stress scenarios; and
- Maintaining a diversified funding base.

The following table shows the contractual maturities of the Company's financial liabilities, all of which are measured at amortised cost:

	At 31 December 2022		At 31 December 2021	
	Trade payables £'000	Other Payables £'000	Trade payables £'000	Other Payables £'000
< 6 months	213	1,034	99	1,806
Carrying value of liabilities	213	1,034	99	1,806

#### Capital risk

Capital is held by the Company to protect its customers, cover its inherent risks, provide a cushion for stress events and to support its business strategy. In assessing the adequacy of its capital resources, the Company considers its risk appetite, the material risks to which it is exposed, and the appropriate strategies required to manage those risks.

The Company objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, continuity of service to customers and maintain an optimal capital structure to reduce the cost of capital.

The Company defines capital as being share capital plus reserves. The Company is subject to externally imposed capital requirements from the Financial Conduct Authority. These are reported monthly to the Board. The Company has complied with all the relevant rules and requirements throughout the year.

The Company prepares regular reports on the current and forecasted levels of capital, as well as the results of stress scenarios, to the Board and executive leadership team (Chaired by the Chief Executive Officer). The key assumptions and risk drivers used to create the stress tests are regularly monitored and reported.

The table below sets out the regulatory capital requirements and the required capital held at 31 December in each year.

	2022 £'000	2021 £'000
Regulatory capital held	(25,542)	4,470
Regulatory capital requirement	2,004	2,073

The Company held negative regulatory capital at the reporting date as a result of the recognition of the customer redress provision in December 2022. On 23 March 2023, the company issued 30,600,000 ordinary shares to the parent undertaking, Embark Group Limited, for a total consideration of £30,600,000 which increased the Company's regulatory capital above the requirement. The comparative figures represent amounts reported in the previous period and have not been restated in light of the prior year adjustment detailed in note 24.

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 20. Share-based payments

Embark Group Limited, the immediate parent undertaking, operates long term incentive arrangements in which Company employees have participated. These long-term incentives include share-based employee compensation arrangements. The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the Statement of Comprehensive Income in the year to which the award relates.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. It is measured at grant date and spread over the period which is expected to pass before the employees become unconditionally entitled to the shares. The total expense is charged to the Statement of Comprehensive Income with the associated credit taken to a share option reserve in equity. At the end of the vesting period, upon lapse or forfeit if earlier, this credit is transferred to the Statement of Comprehensive Income from the share option reserve.

The cost of the incentive scheme is based on the fair value of awards on the date of grant. The value is arrived at using an option pricing model taking into account the terms and conditions upon which the options were granted.

The terms and conditions of grants are as follows:

Grant Date	Employees	Granted By	Accounting Method	Number of instruments	Vesting Conditions	Expiry Date
5th April 2011	Key Staff	Embark Group Limited	Equity	14,400	Sale or listing of business	5th April 2021 or 40 days after sale or listing
26th June 2015	Key Staff	Embark Group Limited	Equity	11,000	Sale or listing of business	5th April 2021 or 40 days after sale or listing
5th April 2016	Key Staff	Embark Group Limited	Equity	30,609	Sale or listing of business	5th April 2021 or 40 days after sale or listing
5th April 2017	Key Staff	Embark Group Limited	Equity	7,762	Sale or listing of business	7 years of vesting
31st March 2018	Key Staff	Embark Group Limited	Equity	5,225	Sale or listing of business	7 years of vesting
31st March 2019	Key Staff	Embark Group Limited	Equity	3,444	Sale or listing of business	7 years of vesting
9th December 2020	Key Staff	Embark Group Limited	Equity	3,220	EBITDA and individual performance	7 years of vesting
7th June 2021	Key Staff	Embark Group Limited	Equity	1,218	EBITDA and individual performance	7 years of vesting
28th July 2021	Key Staff	Embark Group Limited	Equity	326	Sale or listing of business	7 years of vesting

The number and weighted average exercise price of share options is as follows:

	2011		2015		Equity Incentive Plan		2018	
	Share options No.	Weighted average exercise price (£)	Share options No.	Weighted average exercise price (£)	Share options No.	Weighted average exercise price (£)	Share options No.	Weighted average exercise price (£)
Outstanding at the beginning of the year	-	8.87	500	14.35	2,612	14.35	-	5.32
Exercised during the year	-	8.87	-	14.35	-	14.35	-	5.32
Vested during the year	-	8.87	500	14.35	-	14.35	-	5.32
Lapsed during the year	-	8.87	-	14.35	2,612	14.35	-	5.32
Granted during the year	-	8.87	-	14.35	-	14.35	-	5.32
Outstanding at the end of the year	-	8.87	-	14.35	-	14.35	-	5.32

	2019		2020		2021		2021	
	Share options No.	Weighted average exercise price (£)	Share options No.	Weighted average exercise price (£)	Share options No.	Weighted average exercise price (£)	Share options No.	Weighted average exercise price (£)
Outstanding at the beginning of the year	2,628	6.72	3,220	20.89	1,218	77.20	326	289.82
Exercised during the year	-	6.72	-	20.89	-	77.20	-	289.82
Vested during the year	2,628	6.72	3,220	20.89	1,218	77.20	326	289.82
Lapsed during the year	-	6.72	-	20.89	-	77.20	-	289.82
Granted during the year	-	6.72	-	20.89	-	77.20	-	289.82
Outstanding at the end of the year	-	6.72	-	20.89	-	77.20	-	289.82

The net expense recognised in the year arising from equity-settled share-based payments is £109,225 (2021: £128,506).

The net expense recognised in the year arising from equity-settled share-based payments for Directors of the Company is £44,632 (2021: £23,390).

On 31 January 2022 the Company's immediate parent undertaking, Embark Group Limited, was acquired by Scottish Widows Group Limited. The Company's ultimate parent undertaking with effect from this date is Lloyds Banking Group plc. The acquisition represented a crystallising event for open share options.

## EMBARK SERVICES LIMITED

### Notes to the financial statements

#### 20. Share-based payments (continued)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The fair value of the services received is measured using a Black-Scholes model. Measurement inputs and assumptions applied in determining the fair value of the share options are as follows:

	2011	2015	EIP	2018
Share price at grant date	£8.87	£14.35	£14.35	£36.77
Exercise price	£8.87	£14.35	£14.35	£45.97
Expected volatility	32%	32%	32%	30.5%
Expected dividend yield	0%	0%	0%	0%
Risk free interest rate	1.60%	1.60%	1.60%	1.60%
Expected option life to exercise	3 years	3 years	3 years	3 years
Estimated vesting period	3 years	3 years	3 years	3 years
Fair value per option	£1.94	£1.00	£1.00	£1.00

	2019	2020	June 2021	July 2021
Share price at grant date	£35.28	£119.16	£254.30	£290.81
Exercise price	£39.07	£119.16	£199.75	£1.00
Expected volatility	30.9%	29.3%	28.7%	28.7%
Expected dividend yield	0%	0%	0%	0%
Risk free interest rate	1.60%	1.00%	1.00%	1.00%
Expected option life to exercise	3 years	25 months	31 months	6 months
Estimated vesting period	3 years	25 months	31 months	6 months
Fair value per option	£1.00	£1.00	£1.00	£1.00

The expected life of the options is based on the Directors' review of the market situation and their expectations regarding a future sale of the business. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not be the case. The expected volatility used in calculations is the average of the historical volatilities for a range of similar companies where data is available. As the Company is a private company and its shares are not quoted on any recognised Stock Exchange, no reference price exists for the share price at the date of exercise of the options.

#### 21. Related party transactions

During the period, the Company entered into the following transactions with related parties:

The Company has been charged by its fellow subsidiary, Embark Corporate Services Limited, £2,187k (2021: £1,730k) for finance, marketing, facilities, HR, compliance & legal and senior management costs and £1,377k (2021: £1,287k) for the use of pension administration software owned by Embark Corporate Services Limited. At the year-end there was a balance owing to Embark Corporate Services Limited of £707k (2021: £194k).

The Company has charged its fellow subsidiary, EBS Pensions Limited, £326k (2021: £326k) for administration of its SIPP portfolio. At the year-end there was a balance owing from EBS Pensions Limited of £70k (2021: £33k).

The Company has been charged by its fellow subsidiary, Embark Investments Limited, £105k (2021: £117k) for due diligence. At the year-end there was a balance owing to Embark Investments Limited of £9k (2021: £13k).

The Company has been charged by its parent, Embark Group Limited, £468k (2021: £202k) for Executive Management costs. At the year-end there was a balance owing to Embark Group Limited of £454k (2021: £5,576k).

#### 22. Parent undertaking and controlling party

The Company's immediate parent undertaking is Embark Group Limited, a company incorporated in the United Kingdom. The Registered Office Address of Embark Group Limited is 100 Cannon Street, London, England, EC4N 6EU.

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](http://www.lloydsbankinggroup.com).

#### 23. Subsequent events

In March 2023, the company issued 30,600,000 ordinary shares to the parent undertaking, Embark Group Limited, for a total consideration of £30,600,000.

# EMBARK SERVICES LIMITED

## Notes to the financial statements

### 24. Prior year adjustment

During 2022 the Company began a review of its NSI book in light of an increase in customer complaints in the industry, which identified failure of SIPP providers to conduct the required level of third-party due diligence in accordance with the FCA guiding principles as a basis for awarding customer compensation. The review is now at a stage where management consider it possible to determine a reasonable possible range of outcomes and a best estimate of the future outflow. Provision amounts have been restated to reflect the information that was available to the Company at the time of issue of the prior period financial statements but where the review of the book was not sufficiently progressed to quantify the provision amount at that time. An associated deferred tax balance arising on the provision has also been recognised as a prior period restatement.

#### i) Statement of financial position

At 31 December 2021

	As previously reported £'000	Adjustments £'000	As restated £'000
Deferred tax asset	-	7,275	7,275
Total assets	8,462	7,275	15,737
Provisions	(1,109)	(29,100)	(30,209)
Total liabilities	(4,554)	(29,100)	(33,654)
Retained earnings/(losses)	202	(21,825)	(21,623)
Total Equity	3,908	(21,825)	(17,917)

There is no material impact on the opening Statement of Financial Position at 1 January 2021.

#### ii) Statement of comprehensive income

For the year ended 31 December 2021

	As previously reported £'000	Adjustments £'000	As restated £'000
Provisions	-	(29,100)	(29,100)
Tax	(383)	7,275	6,892
Profit/(loss) for the financial year	294	(21,825)	(21,531)

There is no material impact on the total operating, investing, or financing cash flows for the year ended 31 December 2021.