ISSUED 09 March 2023

PLATFORM SECTOR

Embark

FINANCIAL STRENGTH ASSESSMENT

Analysis by AKG Financial Analytics Ltd

Accessible • Comparative • Independent

ABOUT THIS FINANCIAL STRENGTH ASSESSMENT

This AKG report and the analysis and ratings contained within it provide assessment of financial strength and associated considerations. Financial Strength is focused on the ability of a company to deliver ongoing operational capability in the interest of its customers and in line with their fairly held expectations. AKG's perspective in the assessment of financial strength is wholly that of a customer of a product or service. From that foundation, this analysis is specifically designed to inform financial advisers and assist in their required understanding of a company's operational financial strength.

Given the underlying customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met. This contrasts to credit rating, which will be undertaken at group or parent company level where investment or debt placement etc. is made.

Further details on how analysis is undertaken is provided at the end of this report and may also be obtained from AKG.

TABLE OF CONTENTS

CONTACT INFORMATION

AKG Financial Analytics Ltd, Anderton House, 92 South Street, Dorking, Surrey, RH4 2EW
Tel: +44 (0) 1306 876439 Email: akg@akg.co.uk Web: www.akg.co.uk

Rating & Assessment Commentary

RATINGS

Overall Financial Strength

AKG B+ FINANCIAL STRENGTH RATED
PLATFORM SECTOR VERY STRONG
EMBARK INVESTMENT SERVICES LIMITED

AKG B+ FINANCIAL STRENGTH RATED
PLATFORM SECTOR VERY STRONG
STERLING ISA MANAGERS LTD

Supporting Ratings

	Service	Image & Strategy	Business Performance
Embark Investment Services Limited	★★★	★★★★	★★★★
Sterling ISA Managers Ltd	★★★	★★★★	★★★★

SUMMARY

- Embark Investment Services Ltd (EISL) is the provider of the Embark Platform
- Sterling ISA Managers Ltd (SIML) is the provider of the Advance by Embark platform
- Both platforms are wholly owned subsidiaries of Embark Group Ltd (EGL), itself ultimately a wholly owned subsidiary of Lloyds Banking Group plc
- Overall, the Embark group had been developing an increasingly integrated structure and a broad but coordinated distribution capability, with intermediaries, workplace and partnerships with a balance between pension and platform elements
- In January 2022, EGL, excluding Rowanmoor, was sold to Lloyds Banking Group (LBG), to provide a digital, mass market, direct-to-consumer proposition, complementing LBG's existing advice offerings via Schroders Personal Wealth and Cazenove Capital
- Following the acquisition by LBG, there is planned rationalisation of the Embark platforms, with SIML assets being transferred to EISL in phases during 2022
- Embark is expected to contribute to LBG's strategy of direct to consumer and robo-advice offerings, offering the group more diversified revenue streams
- LBG delivered statutory profit after tax of £5.9bn in 2021
- With Charlie Nunn joining LBG in August 2021 as Group Chief Executive Officer, 2022 saw the unveiling of a new strategy focused on prioritising opportunities across each of LBG's businesses to create new revenue streams, whilst deepening relationships with its customers

COMMENTARY

Financial Strength Ratings

The Embark business now has the backing of single very large group parent, in LBG, within which it has clear strategic position and role for growth.

At 31 December 2021, LBG reported an increase in its CET1 capital ratio to 17.3% [2020: 16.2%]. The pro forma CET1 capital ratio at this date was 16.3% reflecting the final dividend received from the Insurance business in February 2022 and an accrual for the announced ordinary share buyback programme of up to £2.0bn that acknowledged the level of its surplus capital. The Board's view of the ongoing level of CET1 capital required to grow the business, meet current and future regulatory requirements and cover uncertainties continues to be around 12.5%, plus a management buffer of around 1%.

At the same date, the Scottish Widows Group Ltd (SWG) 'shareholder view' solvency ratio was 191% (181% after the proposed dividend of £300m paid in February 2022 or 170% on a pro-forma basis allowing for the planned Embark acquisition, which completed on 31 January 2022, and the proposed dividend) [2020: 151% on a pre-dividend basis]. The pro-forma ratio excludes the contribution to both Own Funds and the SCR from the ring-fenced element of the with-profits funds and is consistent with how internal risk appetite metrics are set and managed.

The equivalent regulatory view of the Solvency II ratio (including the With Profits funds and post-dividend) was 170% [2020: 144%].

The Group states that it has maintained a robust solvency position in light of the volatile markets and economic impacts caused by the ongoing COVID-19 pandemic.

As an integrated financial services provider, LBG should be well placed to deliver holistic solutions in areas such as Insurance and Wealth management, alongside its traditional Retail and Commercial Banking activities. This includes the growth of the wealth joint-venture, Schroders Personal Wealth, as well as the acquisition of Embark. These businesses enhance existing capabilities and permit LBG to meet more of its customers' broader financial needs.

Embark Investment Services Limited

A relatively new company, Embark Investment Services Ltd (EISL) continues to invest heavily in its infrastructure and other supporting capabilities. It has continued to receive support from its parent, EGL, to maintain its solvency position and to reinforce its proposition and support acquisitions. It received £7.0m in 2021 [2020: £9.0m, 2019: £9.0m, 2018: £1.7m], to strengthen its technology capabilities and facilitate the integration of the advisers and customers of SIML, which will transfer in phases during 2022. Previous years injections were to support the Alliance Trust Savings (ATS) acquisition.

As at 31 December 2021 EISL had regulatory capital of £9,921k, of which £1,974k was surplus, resulting in a capital ratio of 125%.

The platform is expected to be loss making in the short term until it builds sufficient scale, although the consolidation with SIML will be positive in this respect. A single technology and operational solution is expected to deliver the scale benefits anticipated.

EISL is intrinsically linked to the wider Embark Group and its other propositions and draws strength from its position in the Group. Its purpose is now much more to the fore in the LBG strategy, which sees it being able to reinvigorate and enhance LBG'S intermediary proposition under Scottish Widows in addition to the stockbroking business.

Sterling ISA Managers Ltd

SIML had benefited from considerable financial support from Zurich Insurance Group as evidenced by capital contributions totalling £149m between 2011 and 2016, These had covered the losses made from operating and developing the propositions, and ensured regulatory capital was maintained. They were subsequently reallocated to SIML's profit and loss account as it restructured ahead of its sale.

Zurich's drive to simplify its UK business saw the corporate savings business sold in 2017, with transfers completing over 2018-2019 period, enabling SIML to concentrate its resources on the UK retail wealth market. However, Zurich then concluded that it would require significant investment to grow its retail wealth business efficiently. This business was therefore sold to Embark.

This change of ownership resulted in a move away from a global parent, to a smaller operation focussed solely on the UK, one with ambitious strategic plans and one in which SIML provided greater balance and will be a more significant component. However, its acquisition by another large parent returns it to a previous state. The consolidation with EISL, and the winding up of the company is not surprising, following strategic reviews since the acquisition by LBG

SIML's total available capital resources decreased to £27.8m [2020: £31.8m] in 2021. Its Pillar 1 requirement increased to £9.3m [2020: £7.9m] on a liquid capital basis. This led to a lower surplus of £18.4m [2020: £23.9m] and a reduced CRR ratio of 297% [2020: 402%].

Service Rating

Embark states that its service through its platforms is designed to deliver value to advisers and in turn, create customer value. It has continued to invest in building enhancements to the functional capabilities of both platforms.

As a group, the focus is to invest 'its capital and energies in consumer innovation, enhancing consumer outcomes and achieving the highest staff engagement levels amongst our industry peers'.

Albeit the rapid change the business has been through and particularly the most recent corporate transfer has resulted in service challenges for the business, which it will need to address to ensure these are only transitional and short term.

Technical product support and free investment research is available, including: online support through a dedicated website - embarkplatform.co.uk; web chat; delivering direct access to support; a telephone-based adviser support team; Platform Business Development Managers; a technical support team for Third Party Investment Accounts, pensions and tax planning; and specialist free investment research, available through The Adviser Centre.

The Advance Platform was awarded 5 stars at the Financial Adviser Service Awards in 2020. However, in 2021 it had fallen in these awards to 4 stars for both platform and pensions before returning to 5 stars in 2022 and being highlighted as 'most improved' in the platform sector. The Advance Platform has maintained a 'platinum' rating from Adviser Asset for a fourth year, in 2022.

The Net Promoter Score (NPS) across LBG as a whole, as at December 2021, was maintained at an all time high of 69.0 [2020: 69.0].

Image & Strategy Rating

Embark was founded in 2013 to capitalise on a collision of demographic, behavioural, regulatory, market and structural changes that had taken place or were anticipated. Embark's strategy was consequently somewhat different to other operators of its size and current product set in the market. Key within this strategy is a mix of product competencies, consultancy services and an ability to satisfy a range of distribution routes. All of this is enabled by a service-centric philosophy and leading digital technology platform. Embark intended to leverage its disruptive position in the Platform sector and combine this with its workplace offering to ensure that it is fully participative in all the major distribution channels for retirement savings in the UK.

Following several years of merger and acquisition activity, Embark's emphasis is now on organic growth maximising the return from its recent technology investment. It has sought further exposure in the market growth areas of mainstream platform and direct to consumer SIPPs, and 2018 saw relationships with several D2C providers formed. D2C partners now include NatWest banking group, Moneyfarm, Wealthsimple, Nutmeg, Willis Owen, Bestinvest and Charles Stanley Direct. During 2019, further relationships were secured with Wealthify and HUB Financial Services to utilise EISL's SIPP capability.

However, the opportunity arose in 2019 for Embark to make two strategic acquisitions in the platform space: the intermediated business of ATS and the retail platform business of Zurich UK. The Zurich acquisition also provides the opportunity to diversify into multi-asset fund management through the acquisition of Zurich Investment Services Ltd, which has been renamed as Embark Investments Ltd and now trades as Horizon by Embark.

These acquisitions brought a significant increase in AuA and also improved the balance of the business. The acquisition of Embark by LBG changes the scale of the group it now finds itself in, with wider image and strategy considerations it now needs to adopt. Previous Embark business Rowanmoor was not included as part of the transaction, and broadly retains its previous ownership with no continuing connection to the Embark operation or LBG.

Announced in February 2022, and expected to be launched later in the year, was the development of a new LV= branded service that will enable advisers to access the LV= Smooth Managed Investment Fund range on Embark platform technology.

Embark currently operates with the following brands:

- The Embark Platform, launched in 2017, provided and administered by EISL
- Advance by Embark Platform, provided by SIML, is a digital solution supporting advisers who are delivering services to clients seeking to build their financial security for retirement
- Embark Pensions offers a range of Self Invested Personal Pensions (SIPPs) through advisers and white label partners to help meet their clients' retirement needs
- Embark Investments/Horizon by Embark offers five multi-asset portfolios designed to align with investor's chosen risk profile
- The Adviser Centre, launched in 2014, is an online fund research and consultancy service. It is dedicated to supporting financial advisers in their fund selection work, with a special emphasis on helping them to assess investment suitability
- Stocktrade provides execution only, corporate dealing services to large companies, investment platforms and building societies

Additionally, there are two legacy brands:

- Hornbuckle, founded in 1982. Its initial business was providing financial advice to clients and administering SSASs, before entering the SIPP market in 1997
- EBS launched in December 1970 as one of the first companies to offer small self-administered schemes (SSASs)

Both brands are no longer marketing new business, with new SIPP applications managed by Embark Pensions. New SSAS business is not allowed, and legacy business is administered by Rowanmoor via an outsourcing agreement.

IFA distribution remains the Embark platforms' core long-term channel in the UK. Embark is expected to remain largely independent as it delivers on the wider group priorities in addition to deliver for its existing portfolio of clients.

The addition of Embark to Lloyd's multi-brand portfolio is expected to deliver a market-leading, modern and self-managed investment offering for its customers. LBG states it is the only UK financial services provider that can meet its customers banking, insurance, pension savings and investment needs in one place. The integration of Embark will complement what it already has in place with Schroders Personal Wealth and Cazenove Capital, who will continue to offer face to face advice for affluent and high net worth customers.

The group has ambitious growth plans which the Embark acquisition hopes to realise, targeting a top-three position in direct-to-consumer self-directed and robo-advice business in the medium term, as well as a top-three position in the individual pensions and retirement drawdown market by 2025.

LBG's immediate priorities for Embark include:

- Launch its investment offering for customers who are happy to manage their own portfolios. First will be the simple, ready made investments proposition
- Improve the platform it uses for its Scottish Widows Retirement Account product
- Modernise the technology of its Halifax Sharedealing business making it more intuitive and simple for people to use

Business Performance Rating

EISL client numbers increased from 122,607 to 155,290 in 2021. Within this, SIPP clients increased from 12,432 to 15,654 and Wrap from 110,175 to 139,636. This drove an increase in revenue to £10.6m [2020: £1.6m], but that did not offset the increase of administrative expenses to £13.9m [2020: £4.0m], and there was an increased loss before tax of £12.1m in 2021 [2020: £5.2m].

The first part of the ATS asset migration completed in November 2020 and included £4.4bn AuA. The second part completed in January 2021, adding a further £2.9bn of AuA. These significant pieces of work represented a significant acceleration in EISL's strategy and expected to move the company into profitability.

SIML client numbers increased from 204,859 to 211,514 in 2021. Within this, SIPP clients increased from 73,011 to 80,653 and Wrap decreased from 131,848 to 130,861. This drove an increase in revenue to £43.8m [2020: £38.4m]. An impairment charge of £21.0m relating to the acquisition of SIML by EGL was recorded in 2020, following a change in plans for the company following the acquisition by Embark. However this was non-recurring in 2021. Overall there was a profit before tax of £2.4m [2020 restated: loss of £22.4m].

LBG's statutory profit before tax increased by 463% in 2021 to £6.9bn [2020: £1.2bn]. Statutory profit after tax increased by 324% to £5.9bn [2020: £1.4bn]. Increased profits benefitted from higher income and the net underlying impairment credit of £1.2bn in 2021 [2020: underlying impairment charge of £4.2bn], driven by improvements to the macroeconomic outlook for the UK, combined with robust observed credit performance. Underlying profit before impairment increased by 6% to £6.8bn [2020: £6.4bn] with increased average interest-earning assets, a strengthened banking net interest margin and early signs of recovery in other income, alongside a reduction in operating lease depreciation.

Group & Parental Context

BACKGROUND

Lloyds Bank was originally founded as Taylors & Lloyds in 1765, in Birmingham. Significant development followed including the acquisition of Cheltenham & Gloucester Building Society in 1995 and then TSB later that year to create Lloyds TSB Group plc. The Group was then renamed Lloyds Banking Group plc in January 2009. This followed the acquisition of HBOS plc, which created the largest retail bank in the UK, then part-owned by HM Treasury. Within this, the Insurance Division encompassed all the insurance companies that previously operated within the two banks.

The UK Government injected over £20bn into LBG by way of bail out in 2008, but had reduced its investment over time, with the Group returning to full private ownership in May 2017. 2017 also saw LBG complete the acquisition of MBNA's prime credit card business, its first major acquisition since the financial crisis.

Scottish Widows was acquired by Lloyds TSB plc in March 2000. It distributed through the Lloyds branch network and intermediaries, and directly via telephone and with an online presence. It had four UK life subsidiaries - the main company Scottish Widows plc (SWplc), together with the specialist subsidiaries Scottish Widows Unit Funds Ltd (SWUF - linked pensions business), Scottish Widows Annuities Ltd (SWA - non-profit pension annuities), and Pensions Management (SWF) Ltd (PMSWF). HBOS operated a multi-brand, multi-channel approach, with Clerical Medical Investment Group Ltd (CMIG), Halifax Life Ltd (HLL), St Andrew's Life Assurance plc (SAL) and St. James's Place UK plc, which was sold in 2013. CMIG was the primary HBOS intermediary product provider, together with Clerical Medical Managed Funds Ltd (CMMF), CMI Insurance Company Ltd (an Isle of Man based company now closed to new business and sold to RL360) and HBOS Investment Fund Managers Ltd.

From December 2010, the LBG Insurance Division distributed all its intermediary life, pensions and investment business through a combined salesforce operating under the Scottish Widows brand. In July 2011, a corporate restructuring led to the formation of one insurance group, under the ownership of Scottish Widows Group Ltd (SWG). In 2013 LBG completed the sale of Scottish Widows Investment Partnership (SWIP) to Aberdeen Asset Management. On 31 December 2015, a major simplification of the Scottish Widows Group took place. The business of SWplc, SWUF, SWA, PMSWF, HLL, SAL and CMMF was transferred into CMIG, which was renamed Scottish Widows Ltd (SWL).

LBG now operates through three business divisions: Consumer Lending and Relationships (previously known as Retail), Commercial and Corporate Banking and Insurance, Pensions and Investments(IP&I, previously known as Insurance & Wealth). SWG and its subsidiaries (the Insurance Group) form part of the IP&I Division of LBG, which offers insurance, investment and wealth management products and services, supporting around 10 million customers with assets under administration of £210bn and annualised annuity payments of over £1.1bn. SWG has a presence in life and pensions through SWL and in general insurance through Lloyds Bank General Insurance Holdings Ltd, which owns two general insurance companies: LBGIL and StAI.

On 12 October 2017, LBG entered into an agreement to acquire the UK workplace pensions and savings business from the Zurich Group. The acquisition enabled Scottish Widows to accelerate the development of its financial planning and retirement business and brought around £21bn of assets under administration. The savings business was acquired by Scottish Widows Administration Services Ltd, a subsidiary undertaking, with this transfer completed in April 2018. SWL acquired the pensions business, via a Part VII transfer, in July 2019. The transaction also included a multi-year, exclusive distribution partnership for Zurich to provide group life protection solutions to certain corporate clients of LBG's Commercial Banking services.

LBG has implemented its ring-fencing programme, including the establishment of the non ring-fenced bank, Lloyds Bank Corporate Markets plc (LBCM), and met the legal and regulatory requirements on 1 January 2019. As a predominantly UK retail and commercial bank, the impact on the Group was relatively limited, with minimal impact for the majority of its retail and commercial customers. Over the course of 2018, in order to comply with this legislation, certain businesses were transferred out of Lloyds Bank plc and its subsidiaries to other parts of the Group, by means of statutory or contractual transfers. This included the transfer of certain wholesale and international businesses to Lloyds Bank Corporate Markets and the transfer in May 2018 of SWG and other insurance subsidiaries to LBG. Due to LBG's UK retail and commercial focus, the vast majority of its business continues to be held by Lloyds Bank plc and its subsidiaries (together the ring-fenced bank).

As part of its Brexit preparations, LBG formed a new Luxembourg based company: Scottish Widows Europe S.A. (SWE) SWE is a subsidiary of SWL and SWL's existing European business was transferred to SWE following regulatory approval via a Part VII transfer in March 2019.

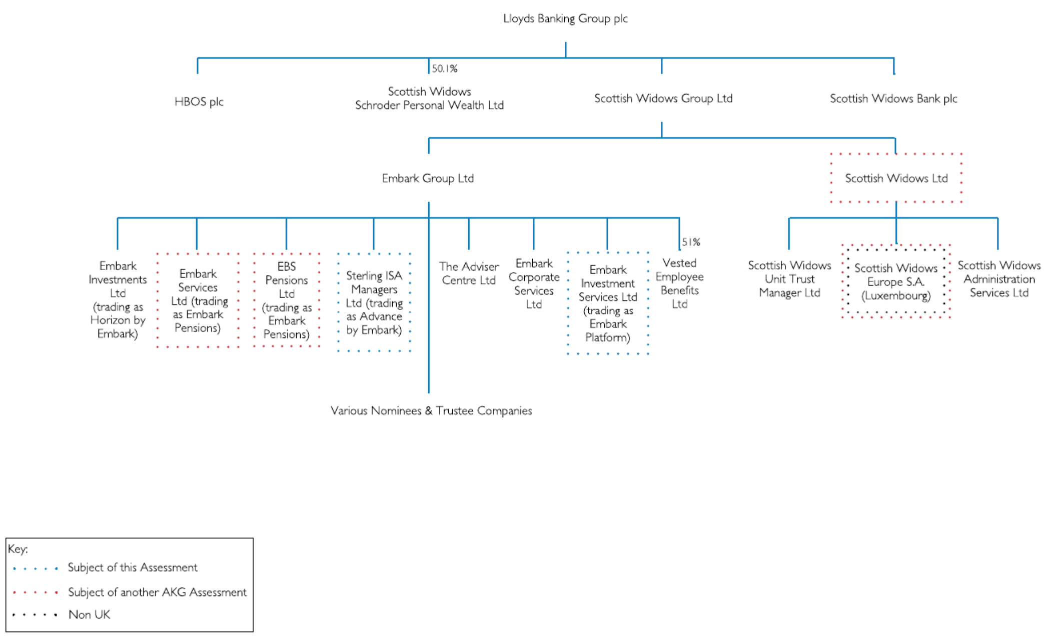
In 2018, LBG terminated and settled its partnership agreements with Aberdeen Asset Management plc, a subsidiary of Standard Life Aberdeen plc (renamed as abrdn plc). In October 2018, LBG entered into new asset management agreements with BlackRock, Inc. and Schroders plc. Scottish Widows was, however, subject to arbitration with abrdn regarding the termination of these agreements. As a result, abrdn continued to manage Scottish Widows' property and tracker funds until April 2022, with compensation paid to abrdn for loss of profit on the portion of assets that transfer before this time.

On 1 February 2022, LBG announced the completion of its acquisition of EGL (excluding Rowanmoor entities) for a cash consideration of £377m, to help realise a top-three position in direct-to-consumer self-directed and robo-advice business in the medium term, as well as a top-three position in the individual pensions and retirement drawdown market by 2025.

In October 2022, LBG announced it was taking a minority stake in Moneyhub, alongside Legal & General.

The group has the largest shareholder base in the UK, with around 2.3m shareholders, including most of its employees. Substantial shareholders include BlackRock, Inc. (5.14%) and Harris Associates L.P. (4.99%).

GROUP STRUCTURE (SIMPLIFIED)



Rating & Assessment Commentary
Group & Parental Context
Company Analysis
Guide

Company Analysis: Embark Investment Services Limited

BASIC INFORMATION

Ownership & Control
Lloyds Banking Group plc

Year Established
2016

Country of Registration
UK

Head Office
7th Floor 100 Cannon Street, London, EC4N 6EU

Contact
www.embarkplatform.co.uk/contact/

Key Personnel

Role	Name
Lloyds Banking Group:	
Chairman	R F Budenberg
Chief Executive Officer	C A Nunn
Chief Financial Officer	W L D Chalmers
CEO, Insurance, Pensions & Investments	A Lorenzo
Embark:	
Chair	S J O'Connor
Chief Executive Officer	J M Leiper
Chief Finance Officer	S C Guild
Chief Technology Officer	B Adams
Chief Risk Officer	L King
Head of Distribution	J Drewett
Head of Propositions	J Sandell
Intermediary Distribution Director	R Ravi-Burslem
Director of Financial Strategy and Projects	C J Wood
Customer Service Director	J Nicol
Chief Executive Officer, Embark Investments	B MacLennan
Chief Executive Officer, Advance Platform	P Bungey
Chief Commercial Officer, Embark Platform	T W Larkman
Chief Executive Officer, Horizon Funds	T Rostron
Chief Commercial Officer, Horizon Funds	F Blain

Company Background
The Embark group was established in 2013 with a fifteen year strategic vision to 'build a leading independent digital retirement platform in the UK that combined the technology strengths of the Wrap Platform market, with the deep

pension expertise of the traditional SIPP and SSAS players'. The Group holding company is EGL, renamed from Hornbuckle Mitchell Holdings Ltd in December 2015.

In itself Embark has been a growing, diversified, financial services business whose acquired operations now have a history dating back more than 40 years. Following the ATS migrations, Embark has over 500 employees and operates from 7 locations in the UK, with around £36.2bn of Assets under Administration and over 360,000 clients.

Embark operates in both the advised and institutional areas of the retirement market through a range of pension, wrap platform, research and consultancy services.

A number of recent acquisitions and investments had seen Embark transition from a privately owned business to a provider of full-scale retirement solutions with significant institutional backing, including BlackRock, FNZ, Franklin Templeton and Legg Mason. Additionally, Merian Chrysalis Investment had also made a material investment in the group.

Significant developments are as follows:

- April 2013 - controlling stake in Hornbuckle acquired
- September 2014 - Partnership with FNZ commences to digitise and support operations
- January 2015 - Nutmeg launches direct to consumer pension offering via ESL
- February 2016 - Avalon Investment Services Ltd acquired, bringing with it platform capabilities
- July 2016 - Rowanmoor Group plc acquired, expanding Embark's SIPP and SSAS capabilities
- October 2016 - The Adviser Centre added investment research and consultancy capabilities
- December 2016 - Embark Corporate Services Ltd (ECSL) created to consolidate Embark's operations
- March 2017 - the assets of DISCUS acquired
- May 2017 - EBS Management plc, renamed as EBS Pensions Ltd (EBS), together with its subsidiaries acquired from Charles Stanley Group plc, expanding Embark's SIPP and SSAS offering. Charles Stanley and Embark became on-going partners for SIPP and SSAS services to Charles Stanley clients.
- December 2017 - Rowanmoor Consultancy Ltd sold to Mazars LLP, as Embark exits from financial advice-based services
- December 2017 - Vested Employee Benefits Ltd launched in a joint venture with Mazars, bringing employee benefits and workplace savings to the Group
- January 2019 - Embark Pensions is launched
- November 2019 - Embark acquired the rights to the future migration of the advised and partnership client books of ATS
- May 2020 - Zurich Retail Wealth and Horizon Funds are acquired expanding Embark's investment capabilities. Embark has also entered into a five-year partnership agreement with Zurich with the aim of creating digital life and protection products
- May 2020 - Advance by Embark platform and Horizon by Embark businesses are launched
- January 2021 - The ATS migration completed, bringing £7.3bn of AuA and over 30,000 of new clients
- January 2022 - Embark is acquired by LBG
- September 2022 - Sale of Vested Employee Benefits Ltd to Benefiz Ltd, exiting Embark from employee benefits consulting

The Embark Group itself has sought investment to fund this expansion and development, with share issues of £6.8m in 2016, £3.25m in 2017 and £7.3m in 2018. In December 2018, the holding company of FNZ became a minority shareholder of Embark, with a 9.09% holding. In July 2019, Embark raised £19.4m of net new capital, funded by new institutional investors BlackRock, Inc., Legg Mason, Inc. together with a material investment by Merian Chrysalis Investment Company Ltd. In addition, £45.0m of capital has been raised through a new investor (Franklin Templeton Global Investors) and existing shareholders in 2020 to fund the acquisitions from Zurich.

In July 2021, it was announced that Embark Group had been sold to LBG, with the transaction completing in January 2022. Rowanmoor was not acquired by LBG, and remained as standalone businesses.

EISL was formed in 2016, initially to facilitate the acquisition of assets from the failed Avalon Platform, which operated a range of platform and non-platform administered services, utilising various outsourced technologies and service providers.

A transition program actioned in 2016 was designed to:

- Stabilise the model for the safety of the customers transitioning from Avalon
- Migrate products and services not suitable for platform delivery
- Establish an appropriate long-term operating model, centred on FNZ technology

The transition completed in 2017 comprised of:

- Realisation of the FNZ powered platform and the migration of the Avalon back-book onto this technology
- The outsourcing of non-platformed SIPP capabilities to sister company, Rowanmoor Personal Pensions Ltd
- Outsourcing a range of central services to ECSL
- Establishing a fully connectable 'white label' solution with the first client live
- The commercial launch of the 'Embark Platform' to new clients.

2018 saw the bedding in of the Embark Platform with effort focused on increasing the level of STP, delivering material benefits to operational risk performance alongside general operating efficiencies.

2019 saw the business continue to invest in order to build enhancements to the functional capabilities of the Embark Platform, including adding support for portfolio modelling for Discretionary Investment Managers and the on-boarding of additional 'white label' partners.

In November 2019, EISL acquired the rights to the future migration of the advised and partnership client books of ATS from Interactive Investor Limited, further increasing its presence in the UK investment savings sector. Overall, the transaction brought scale, with more than £7bn of AuA along with around 30,000 new clients to the Embark Platform, alongside gaining the benefit of a highly skilled, experienced leadership and operational team. The migration of the client portfolios took place at the end of 2020 and early 2021 in two tranches.

The principal activity of EISL is a provider of a platform for financial advisers and, in white labelled format, execution-only distribution partners.

EISL launched its new platform, Embark, in December 2017. At the end of 2021, EISL had 15,654 SIPP clients [2020: 12,432] and 139,636 Wrap clients [2020: 110,175].

Embark Investment Services Nominees Ltd (EISN) is a wholly owned subsidiary company of EISL. Embark Trustees Ltd, owned by EGL, provides trustee services for the Embark SIPP business.

OPERATIONS

Governance System and Structure

Embark states that it is committed to achieving high standards of corporate governance, integrity and business ethics. Its Board has sub-committees to provide corporate governance and these also meet formally on a quarterly basis. These sub-committees comprise of Non-Executive Directors with Executive Directors in attendance as required. Each of the sub-committees (Audit; Risk, Regulatory & Compliance; Remuneration and Nominations; Customer Outcomes) are governed by terms of reference that have been approved by the Board.

EISL has a Governance committee, with several members of the wider Embark Group having key roles.

Risk Management

As with the governance framework, risk consideration benefits from both a wider Embark group context and also from Lloyds Banking Group. The Embark group's risk management framework considers at a detailed level, risks against shareholders' appetite for the following risks: strategic, people, financial, operational, legal and regulatory, proposition, and distribution risk. There is a formal structure for monitoring and managing risks throughout the Group, comprising a risk appetite agreed by the Board and detailed risk management policies, independent governance and risk oversight.

A full review of the risk framework is underway in 2022, reflecting the recent corporate activity and sale to Lloyds Banking Group. This will ensure that all businesses identify both existing and emerging risks and continue to develop appropriate mitigation strategies within a refreshed group framework which will align to the expectations and appetite of the new parent.

The company's management believe that all risks are under control and do not hamper the business's ability to operate and grow safely. It reported it had 'successfully navigated the COVID-19 pandemic through 2020 and to date in 2021 with no significant impact to its short or long-term strategy'. Cyber threats and effects from the performance of financial markets may arise from the Russian invasion of Ukraine, and this remains a watching brief for the group.

Administration

The Embark platform runs on technology provided by FNZ (UK) Ltd (FNZ). The original 10 year partnership with FNZ for platform technology and administration services was extended at the time of the FNZ investment in Embark, to 2028. Business continuity and disaster recovery plans are managed in conjunction with FNZ.

The Embark platform makes extensive use of straight-through processing to automate all major processes and deliver maximum efficiency for advisers and consumers. It also provides real-time transactions, requires no 'wet' paper signatures, and supports users via online chat, phone and email. Platform implementation is provided alongside a nationwide team of business development managers.

Platform systems are hosted across two mirrored data centres in Edinburgh and London. These are synchronised through real-time data replication technology. Further backup services provide the ability to recover on tertiary hardware, if required. Monitoring of the sites is continuous. This data can be accessed from Embark's administration centres in London, Leicester, Salisbury and Edinburgh.

In response to COVID-19, March 2020 saw EISL's business continuity plan activated across all sites. This saw the majority of its staff transition to fully operating in isolation with all activities being performed remotely, away from core office locations. Based on this continuity of service delivery, the impact on chargeable revenue was minimal, especially as the bulk of Group revenue streams are persistent and backed in the main by pension fund assets. Over 80% of the Embark group's revenue is recurring annualised fees dependent primarily on the continuity of service which EISL has been able to maintain. EISL is confident that any detrimental impacts can be covered by the available liquidity throughout it & the wider group.

Benchmarks

The Embark Platform had not featured in many recent awards, but was highly commended in the UK Platform Awards 2018: Best Use of Platform Technology category. However, now within the Lloyds Banking Group/Scottish Widows organisation, it returned to 5 Stars in the Financial Adviser Service Awards in 2022.

Outsourcing

Embark Trustees Ltd (ETL) is the Trustee of the Embark Personal Pension Scheme, while Avalon assets in pensions are held in trust by group subsidiary Avalon SIPP Trustees Ltd. For Embark, all Mutual Funds will be held in the name of its appointed sub Custodian nominee and Exchange Traded Instruments will be held in the name of nominee company EISN.

The company utilises the services of fellow group subsidiary, Embark Corporate Services Ltd (ECSL), and was recharged in respect of finance, marketing, facilities, human resources, compliance & legal and senior management costs. In 2021 it was also recharged £5.1m [2020: £0.7m] for the use of pension administration software owned by ECSL.

Administration of the non-platformed SIPP capabilities is now provided by ESL.

Additional services and feeds are provided through links with Financial Express and Morningstar.

As the shape of integration within LBG plays out there is scope for the platform to make use of the wider in-house resources and facilities of such a large banking and insurance group.

STRATEGY

Market Positioning

Embark was formed in 2013 with a fifteen year strategic vision to build a leading independent digital retirement platform in the UK that combined the technology strengths of the Wrap Platform market, with the deep pension expertise of the traditional SIPP and SSAS players.

Since its inception, there have been significant developments with regards technology, consumer behaviour, consumer knowledge, legislative, regulatory, and competitive dynamics. This has enabled the ongoing and incremental implementation of its strategy, which had remained unchanged until the acquisition by LBG.

Embark considered that it has established its position as a scale market participant in both the SSAS and full SIPP sectors and, post the completion/integration of its acquisitions in 2019/20, it is an established Top 10 Wrap provider in terms of AuA.

Over the next five years, Embark had intended to continue to leverage both its disruptive position in the Wrap sector via the Embark Platform, whilst building on the full-service offering' platform play that came via the Advance Platform acquisition. This 'dual' propositional strategy was aimed at providing services that meet all levels of affluence and need. Newer to the strategic plan was the deployment and development of a multi-asset fund range ('Horizon') acquired from Zurich UK. Embark now finds its strategy linked to that of a wider group strategy, as it becomes a crucial component of Scottish Widows' on-platform Intermediary and Retail D2C ambitions (where it will power functionality behind existing group banking and other brands). The acquisition of Embark for LBG unlocks an opportunity in the IP&I market to obtain above market growth, and enables proposition transformation. The combination of Scottish Widows and Embark enables a full service proposition to be taken to market and the opportunity to leverage a channel led strategy that meets distinct segment needs.

The Embark Platform aims to become a leading technology-led retirement-focused platform to financial advisers and execution only distribution partners, providing a personalised service, at low cost. As part of the acquisition of SIML, Embark took over a legacy agreement with Openwork, which was renewed to 2026 but this was before the acquisition by LBG. Embark has since discussed the opportunity of looking to other adviser networks, with these bigger strategic relationships driving more investment into the platform.

Embark states that its proposition is designed to deliver value for money, enabling its clients to profitably service customers of every affluence via a fully integrated dealing solution.

Embark also states that its APIs (Application Programme Interfaces) offer streamlined routes to market and that it is happy to discuss third party arrangements or 'white labelling' upon request. Existing agreements have already been put in place, and other 'major' opportunities are envisaged.

The proprietary platform is considered by the company to be scalable. Whilst not offering the full range of wrappers (i.e. no Onshore or Offshore Bonds are available), it aims to differentiate on cost and service grounds from other platforms, and if this is the case it may be attractive to certain types of intermediary.

In terms of promoting distribution of the Embark platform and broader proposition more widely in the adviser market the opportunity is expected to be significantly enhanced by the ability to combine activity within the much larger Scottish Widows sales and support teams.

Proposition

Now under LBG ownership, Embark has an emphasis on organic growth, maximising the return from its recent technology investment and delivering this into LBG as part of the latter's strategic trajectory. This will build on further exposure in the market growth areas of mainstream platform and direct to consumer SIPPs, and 2018 saw several D2C providers being brought on. D2C partners now include NatWest banking group, Moneyfarm, Wealthsimple, Nutmeg, Willis Owen, Bestinvest and Charles Stanley Direct. During 2019, further relationships were secured with Wealthify and HUB Financial Services to utilise EISL's SIPP capability. IFA distribution was previously the Embark group's core long-term channel in the UK, but that is likely to change under LBG. The acquisitions of the intermediated business of ATS and the retail platform business of Zurich UK brought balance between Embark's Pension and Platform businesses.

The Zurich acquisition also enabled some diversification into multi-asset fund management through the Horizon funds. This acquisition has brought with it more than £11bn of platform AuA and an advised book of around 130,000 clients. It has also added an extensive distribution capability with good reach into the adviser community.

The ATS acquisition allowed both EISL and Embark to accelerate their growth strategy, as well as bringing complementary distribution relationships. This accelerated AuA growth - bringing with it around £6bn in AuA, client number growth and reinforced Embark's position as one of the fastest growing disruptors in the UK investment savings and platform market. It also created an opportunity to establish a centre for operations and growth in Scotland (the historic base of ATS), enabling Embark to access local resource and FinTech capabilities.

EISL provides a low-cost retirement-focused open architecture platform, which was launched in 2017. It partners with BlackRock on account fund management and aims to be a material disruptor with its pricing model.

Embark had been focusing on moving its back book of business onto the platform, which runs on FNZ technology, as well as a number of white label partners. Clients from the Avalon platform have also been transferred to the Embark Platform.

The Embark Platform offers various products: the Embark General Investment Account, Embark Personal Pension, Embark ISA, Embark JISA, Embark Junior Personal Pension and Embark Third Party Investment Account (TPIA). It aims to provide these products with a transparent pricing structure on open architecture. It does not offer onshore or offshore bond wrappers. It offers: 4,000 mutual funds from over 100 fund managers; over 3,000 listed securities, investment trusts and ETFs; and model portfolios provided by a range of Discretionary Investment Managers (DIMs). The Embark TPIA allows clients to keep their existing pension while investing on the Embark platform, alongside any savings held in the ISA or GIA. The Embark platform has a low initial contribution level of £50 for the Personal Pension, ISA, JISA and GIA, and a range of flexible contribution frequencies.

Functionality includes: an online audit trail; switching capabilities; fully online drawdown; flexible withdrawals; integrated payroll available on any day; client and adviser reporting; and online elective corporate actions management. Additional tools include: free investment research, including fund research tools and factsheets; and information for Capital Gains Tax (CGT) calculations.

The on-going changes, moving away from a paper-based operation to a technology-led administration, and revamping product and distribution strategies, have and will continue to require further investment now within the new LBG ownership context. LBG has three immediate priorities as it begins to work with Embark:

- Launch its investment offering to customers who are happy to manage their own portfolios. First up will be the ready-made investments proposition
- Improve the platform it uses for its Scottish Widows Retirement Account product
- Modernise the technology of its Halifax Sharedealing business

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2021

Capital Resources Disclosures

	Dec 19 £ 000's	Dec 20 £ 000's	Dec 21 £ 000's
Available capital resources	690	5,103	9,921
Capital resources requirement (CRR)	526	1,713	7,947
Excess capital resources	164	3,390	1,974
CRR coverage ratio (%)	131	298	125

EISL was established with £300m in 2016 and has since received a series of capital injections to support its growth: £1,905k in 2017, £1,650k in 2018 and £9,000k in both 2019 and 2020 covering the ATS acquisition. In 2021, an additional £7,000k was injected by parent EGL.

At the end of 2021 EISL had regulatory capital of £9,921k [2020: £5,103k], and surplus regulatory capital of £1,974k [2020: £3,390k], giving a capital ratio of 125% [2020: 298%].

Statement of Financial Position

	Dec 19 £ 000's	Dec 20 £ 000's	Dec 21 £ 000's
Assets	10,950	15,954	13,928
Current liabilities	(826)	(1,482)	(2,367)
Long-term liabilities	0	0	0
Net assets	10,124	14,472	11,561

Statement of Changes in Equity

	Dec 19 £ 000's	Dec 20 £ 000's	Dec 21 £ 000's
Equity at start of period	1,599	10,124	14,472
Movement due to:			
Share capital and premium	9,000	9,000	7,000
Retained earnings	(504)	(4,650)	(10,430)
Other	29	(2)	519
Equity at end of period	10,124	14,472	11,561

With all the capital injections received to date, EISL's share capital has increased to £28,855k [2020: £21,855k], partially offset by retained losses of £17,863k [2020: £7,433k].

The decrease in net assets during 2021 primarily relates to goodwill and intangible assets related to acquisitions in previous years being written off. No external borrowing sits with the company.

Income Statement

	Dec 19 £ 000's	Dec 20 £ 000's	Dec 21 £ 000's
Revenue	1,305	1,592	10,621
Other operating income	0	0	0
Operating expenses	(1,910)	(6,785)	(22,593)
Operating profit (loss)	(605)	(5,193)	(11,972)
Other gains (losses)	3	3	(78)
Profit (loss) before taxation	(602)	(5,190)	(12,050)
Taxation	98	524	1,598
Profit (loss) after taxation	(504)	(4,666)	(10,452)
Other comprehensive income	0	0	0
Dividends	0	0	0
Retained profit (loss)	(504)	(4,666)	(10,452)

Financial Ratios

	Dec 19 %	Dec 20 %	Dec 21 %
Operating margin	(46)	(326)	(113)
Pre-tax profit margin	(46)	(326)	(113)
Employee costs as a % of revenue	82	118	34

The company reported that overall client numbers increased by 26.7% to 155,290 [2020: 122,607]. Within this Wrap clients increased by 26.7% to 139,636 [2020: 110,175] and SIPP clients by 25.9% to 15,654 [2020: 12,432].

Driven by increased client numbers, revenue rose by 567.1% to £10,621k [2020: £1,592k]. This consisted of £10,351k [2020: £1,459k] from Wrap platform administration services and £270k of other revenue. There was no revenue from SIPPs [2020: £133k]. With admin expenses increasing by 249.4% to £13,915k [2020: £3,982k], this was compounded by an impairment loss on goodwill and intangibles of £8,666k [2020: nil], with the company writing down the entire goodwill associated with Avalon assets and ATS client books.

The total loss before tax increased to £12,050k [2020: £5,190k]. No dividend was paid [2020: nil]. Further growth is required for the company to become profitable.

Statement of Cash Flows

	Dec 19 £ 000's	Dec 20 £ 000's	Dec 21 £ 000's
Net cash generated from operating activities	(8,981)	(7,066)	(2,742)
Net cash used in investing activities	3	3	(78)
Net cash used in financing activities	9,000	9,000	7,000
Net increase (decrease) in cash and cash equivalents	22	1,937	4,180
Cash and cash equivalents at end of period	1,199	3,136	7,353

Assets under Administration (AuA)

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Assets at start of period	288	436	5,407
Inflows	153	601	485
Outflows	(8)	(251)	(245)
Net market and other movement	3	4,621	160
Assets at end of period	436	5,407	5,807
Growth rate (%)	51	1,140	7
Net inflows as % of opening AuA	50	80	4

Similar to other financial metrics, cash flow was impacted by the ATS acquisition, with a net cash outflow from operating activities of £2,742k in the year [2020: £7,066k] and a small amount of interest paid (£78k). These outflows were more than offset by the share issue of £7,000k [2020: £9,000k], resulting in an increase in cash and equivalents over the year, which totalled £7,353k at the year end [2020: £3,136k].

AuA in the year to 31 December 2021 increased, largely reflecting the movement of the second ATS advised migration in January 2021.

Company Analysis: Sterling ISA Managers Ltd

BASIC INFORMATION

Ownership & Control
Lloyds Banking Group plc

Year Established
1999

Country of Registration
UK

Head Office
7th Floor 100 Cannon Street, London, EC4N 6EU

Contact
www.embarkadvance.co.uk

Key Personnel

Role	Name
See Embark Investment Services Ltd	

Company Background
The company acts as a platform operator and as a manager for ISAs, Investment Accounts and SIPPs in the UK.

Having historically acting purely as a manager for ISAs and Investment Accounts, and under the ownership of Zurich, 2010 saw SIML take the decision to expand its activities and to develop and operate two separate platforms, one aimed at the retail market (Zurich Intermediary Platform - ZIP) and the other at the corporate savings market, (Zurich Corporate Savings Platform - ZCSP) both hosting products provided both by SIML itself as well as the wider Zurich Insurance Group.

ZCSP was launched in March 2012 and ZIP was launched in September 2012.

On 12 October 2017 Zurich announced the sale of its workplace and savings business, Zurich Corporate Savings to the LBG. This included the sale of the ZCSP, which completed on 3 April 2018, with SIML ceasing its operation of a Corporate Savings Platform. On 3 July 2019, SIML received the remaining element of sales proceeds. The net gain on sale of discontinued business recognised in 2019 was £4.6m [2018: £2.7m].

2019, saw an early repayment of £7.5m from ZAL, which removed the profit share element of SIML's Group Life Assurance Agreement (GLAA) with ZAL, under which ZAL effectively bears the risks relating to the additional death benefit on accounts opened prior to 29 April 2011, with effect from 1 November 2011.

On 19 November 2019, Zurich announced the sale of its UK Retail Wealth business to Embark, including the sale of SIML and its Retail Savings Platform and legacy business. The transaction also includes Zurich UK's authorised corporate director and investment management business, Zurich Investment Services (UK) Ltd and includes the five Zurich Horizon multi-asset funds. The sale completed in May 2020.

May 2020 also saw SIML relaunched as Advance by Embark.

In July 2021, it was announced that Embark Group had been sold to LBG, with the transaction completing in January 2022. Rowanmoor was not acquired by LBG, and will remain as standalone businesses, with no ongoing connection to Embark or LBG business.

In 2021, the group came to a decisions to migrate customers to EISL to benefit from the best technology the group has to offer. Subsequent to the planned migrations, SIML will commence an orderly wind down of its business.

OPERATIONS

Governance System and Structure

The Embark Group states that it is committed to achieving high standards of corporate governance, integrity and business ethics. The Group board has sub-committees to provide corporate governance and these also meet formally on a quarterly basis. These sub-committees comprise of Non-Executive Directors with Executive Directors in attendance as required. Each of the sub-committees (Audit; Risk, Regulatory & Compliance; Remuneration and Nominations; Customer Outcomes) are governed by terms of reference that have been approved by the board.

SIML implements and adapts the Embark Group's policies appropriately, allowing for its specific risk profile, whilst maintaining compliance with the overarching Embark Group policies. The SIML Board has four standing Committees who are authorised to assist the Board in carrying out its responsibilities: Risk Committee; Audit Committee; Remuneration Committee; and Nomination Committee.

Risk Management

As with the governance framework, risk consideration now benefits from the group context. The Group's risk management framework considers at a detailed level, risks against shareholders' appetite for the following risks: strategic, people, financial, operational, legal and regulatory, proposition, distribution and asset concentration risk. There is a formal structure for monitoring and managing risks throughout the Group, comprising a risk appetite agreed by the board and detailed risk management policies, independent governance and risk oversight.

The Directors of SIML ensure that the specific risks SIML is subject to are documented, together with their appetite for these risks. SIML has a dedicated Risk Committee, which is a committee of the SIML Board. It has delegated authority to review the performance of the risk policy framework and to advise the Board whether or not the risks are being managed in accordance with its appetite.

The most important risk category for SIML is currently operational risk. SIML therefore holds a larger amount of Pillar 2 risk capital to protect itself against operational risks than it does against the other risk categories.

Additionally, the risks associated with transferring the company from Zurich to Embark were assessed through a formal transfer programme with mitigating actions monitored by senior management and the risk functions of both Zurich and Embark.

2020 also saw the emergence of COVID-19 as a risk, but the company concluded that any impact on capital resources would be gradual rather than immediate.

Administration

Overall Embark as a group is taking a more integrated approach to service provision; with functions shared across the constituent companies and offerings. This includes this business and proposition acquired from Zurich.

In response to the pandemic, the Embark group's 'business continuity plans' appeared to have been activated in a timely fashion across all the businesses and office locations. This has resulted in over 95% of the workforce operating from home with all activities being performed remotely, away from core office locations.

The business has demonstrated clear business continuity planning and preparation, and this should leave the business in a good position to deal with further emerging aspects of the crisis and to be able to handle the operational challenges presented. Within this Embark specifically states that it has maintained all SLAs; all phone lines have remained open; and there has been no significant impact on customer service.

SIML has also been able to demonstrate an effective transition in working practice and maintain its continuity and stability in the context of the COVID-19 pandemic. There has been continued pressure on service levels in 2021, but these have stabilised and improved over the rest of the year.

With the predicted growth of platform assets, utilising the technology within the Embark group is key to maintaining requisite service delivery. The transfer of the majority of customers to EISL will take place at a future point, with customers able to benefit from the best technology the group has to offer.

Benchmarks
Advance by Embark has received the following awards and recognition:

- Achieved Five Star Defaqto status for the tenth year in a row in 2022, and was awarded a Gold service rating for 2022 following Defaqto's Platform Service Review
- Awarded Platinum status by AdviserAsset, for the fourth year, in its 2022 platform ratings
- Achieved Five Stars from Financial Adviser Service Awards in 2020 and once again in 2022
- Platform of the Year at the 2020 SimplyBiz Partnership Awards having been a runner-up in 2017
- Moneyfacts SIPP & SSAS Star Ratings 2020 saw the Platform's Retirement Account awarded 4 Stars

Outsourcing
The administration and wrapper system (back office) has been built on established FNZ (UK) Ltd technology. FNZ was set up in the UK in 2005 and has provided technology for several other UK platforms.

The platform's core wrappers (Investment Account, Cash and Stocks & Shares ISAs, Retirement Account as well as the Junior ISA and Retirement Account for children) are provided by SIML. Access to the Utmost Offshore Bond is available, provided by Isle of Man based Utmost Ltd.

Sterling ISA Managers (Nominees) Ltd, provides nominee services to the retail platform (except for exchange traded assets - Winterflood Client Nominees Ltd provides this).

It was reported in October 2021, that the Embark group were weighing up a migration of Advance to a newer FNZ version, more aligned with the wider group. However it has since been announced that this platform upgrade will not be required with the transfer of assets to EISL.

STRATEGY

Market Positioning
The sale of the ZCS business in 2018 and exiting from the corporate savings market saw around £15bn of AuA and around 500,000 clients move to Scottish Widows and resulted in SIML being a less complex business, enabling it to concentrate its resources on the UK retail wealth market. SIML's UK retail wealth business has grown year on year since its launch. However, Zurich considered that continued growth, whilst continuing to serve the needs of its customers and distributers, would require significant investment in addition to integrating distribution, wealth platforms, investment advice and fund management. Zurich therefore decided to sell its UK retail wealth business, which includes SIML. In November 2019, Zurich UK entered into an agreement to sell its retail wealth business to Embark, for an undisclosed sum, which completed in May 2020. The transaction included SIML plus Zurich UK's authorised corporate director and investment management business, Zurich Investment Services (UK) Ltd (renamed as Embark Investments Ltd), which includes the five Horizon multi-asset funds. The transaction represented total AuA of around £11bn and over 130,000 advised clients. Approximately 110 Zurich employees transferred to Embark under a TUPE arrangement. As part of the deal, Zurich and Embark have entered into a five-year partnership agreement to develop and deploy digital life and protection products through Embark's technology and distribution channels.

The announcement in 2022 that the accounts and assets of SIML will transfer to EISL, with the former winding down, has come as a significant, but not unexpected deviation of strategy. With the technology underpinning the Advance platform identified as required upgrade, there are synergies and benefits from utilising one technology stack rather than having to maintain two different aged versions. Customers will receive a more standardised service and offering, however SIML has always received more recognition for its proposition, compared with the Embark Platform. It will be important for the group to ensure this sentiment is not lost in the transfer.

Proposition

The Advance by Embark Platform provides access to over 3,900 funds, services from around 200 Discretionary Fund Managers, and UK listed securities including ETFs, investment trusts, equities, gilts, and bonds. It also offers other features including: allowance trackers for ISAs; data integration with IRESS, Intelligent Office and Distribution Technology; 'set and forget' phased investment capability.

A range of account types can be accessed including Platform Cash Account, Cash ISA, Stocks and Shares ISA, Investment Account, Retirement Account and JISA. The Utmost Offshore Bond can hold the Platform's Investment Account, with trades completed on the Platform.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2021

Capital Resources Disclosures

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Available capital resources	33.0	31.8	27.8
Capital resources requirement (CRR)	7.9	7.9	9.3
Excess capital resources	25.1	23.9	18.4
CRR coverage ratio (%)	417	402	297

SIML is required to hold sufficient capital to meet the FCA's Capital Resources Requirement (Pillar 1). It also produces an ICAAP statement to ensure its capital is sufficient to meet additional stressed business risks (Pillar 2), although the latter's figures are not published. SIML's total available capital resources decreased to £27.8m [2020: £31.8m] in 2021. Its Pillar 1 requirement increased to £9.3m [2020: £7.9m] on a liquid capital basis. This led to a lower surplus of £18.4m [2020: £23.9m] and a reduced CRR ratio of 297% [2020: 402%].

In addition, SIML is required to meet a Common Equity Tier 1 (CET1) minimum capital ratio of 4.5% and Tier 1 minimum capital ratio of 6%at 31 December 2021, which it comfortably achieved at 23.8% for both measures [2020: 31.1% for both].

Statement of Financial Position

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Assets	67.1	48.1	45.8
Current liabilities	(10.2)	(12.2)	(18.0)
Long-term liabilities	(3.5)	0.0	0.0
Net assets	53.4	36.0	27.8

Statement of Changes in Equity

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Equity at start of period	77.7	53.4	30.1
Movement due to:			
Share capital and premium	0.0	0.0	0.0
Retained earnings	(24.4)	(17.4)	(3.2)
Other	0.0	0.0	0.8
Equity at end of period	53.4	36.0	27.8

Net assets reduced to £27.8m [2020 restated: £30.1m], reflecting dividends paid (£2.5m) and a loss after tax in the year (£0.7m). No external borrowing sits with the company.

Income Statement

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Revenue	37.3	38.4	43.8
Other operating income	12.1	0.0	0.0
Operating expenses	(36.2)	(60.2)	(41.4)
Operating profit (loss)	13.2	(21.8)	2.4
Other gains (losses)	0.5	0.0	(0.1)
Profit (loss) before taxation	13.7	(21.8)	2.4
Taxation	0.9	4.4	(3.0)
Profit (loss) after taxation	14.6	(17.4)	(0.7)
Other comprehensive income	0.0	0.0	0.0
Dividends	(39.0)	0.0	(2.5)
Retained profit (loss)	(24.4)	(17.4)	(3.2)

Financial Ratios

	Dec 19 %	Dec 20 %	Dec 21 %
Operating margin	35	(57)	6
Pre-tax profit margin	37	(57)	5
Employee costs as a % of revenue		25	4

Revenue increased to £43.8m [2020: £38.4m], primarily driven by increased retail fund-based charges of £28.3m [2020: £23.5m] and legacy sterling custody charges of £7.5m [2020: £7.5m].

Expenses decreased by 31.9% to £41.4m [2020 restated: £60.8m] mainly due an intangible asset impairment charge not recurring [2020: £21.0m]. In 2021, SIML sales team were transferred into ECSL to be consistent with other sales teams across the group, and this can be seen in the decrease in employee costs as a percentage of revenue in the table above.

There was a profit before tax of £2.4m [2020 restated: loss before tax £22.4m].

Statement of Cash Flows

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Net cash generated from operating activities	10.5	(4.6)	1.0
Net cash used in investing activities	(12.5)	(1.6)	(0.1)
Net cash used in financing activities	(39.0)	9.3	1.5
Net increase (decrease) in cash and cash equivalents	(41.0)	3.1	2.4
Cash and cash equivalents at end of period	23.8	26.9	29.3

Assets under Administration (AuA)

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Assets at start of period	9,451	11,827	13,373
Inflows			
Outflows			
Net market and other movement			
Assets at end of period	11,827	13,373	15,611
Growth rate (%)	25	13	17
Net inflows as % of opening AuA			

In the period to 31 December 2021, there was £1.0m net cash inflow from operating activities [2020: outflow £4.6m]. There was a minor outflow from investing activities of £59k [2020 restated: inflow £7.6m] and a £1.5m inflow from financing [2020: nil] related to the proceeds from loans (£7.0m) offset by repayments of loans (£3.0m) and payment of dividends (£2.5m). Overall, cash increased from £26.9m to £29.3m at the end of the year.

AuA increased by 17% to £15.6bn [2020: £13.4bn] and reflects the growth of the Retail Savings Platform business more than offsetting reductions in the off-platform business.

Guide

INTRODUCTION

For over 30 years AKG has particularly focused on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain a company's ability to deliver sustained provision.

From this customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company (not some higher corporate entity) that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met.

It is also important to understand the sector approach (comparative peer groups) that is adopted in financial strength assessment and rating process.

At AKG, this is again driven by the end customer perspective and the fact that assessment is designed solely for this purpose, i.e. as a component in helping customers' advisers to select between comparable companies competing to deliver relevant products or services.

AKG's focus and approach has remained consistent over the years since it commenced assessment and rating support for the market. However, coverage, format and presentation has rightly evolved over this period, in line with the needs and expectations of assessment and rating users in the market. And AKG considers further changes on a continual basis.

Further details including an explanation of what is included in the assessment reports and coverage can be found online at https://www.akg.co.uk/information/reports/platform.

AKG's process for assessment and rating is to use a balanced scorecard of measures and comparative information, relevant to the companies contained within each peer group. This is gathered via Public Information only for non-participatory assessments and public information plus company interactions with companies for participatory assessments. Further details on AKG's process can be found at https://www.akg.co.uk/information/reports.

This includes further information on the different participatory and non-participatory basis and for companies wishing to learn more about participatory assessment AKG is pleased to outline this and welcomes contact.

This is a participatory assessment.

RATING DEFINITIONS

Overall Financial Strength Rating
The objective is to provide a simple indication of the general financial strength of a company from the perspective of those financial advisers who when acting on behalf of their clients need to ascertain a company's ability to deliver sustained operational provision of products or services.

The overall rating inherently reflects the mix of business within the company, since different types of customer or policyholder have different requirements and expectations, and the company may have particular strengths and weaknesses in respect of its key product or service areas. However, it also takes account of comparison across the sector in which it is assessed.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital and asset position, expense position and profitability any specifically onerous element such as with profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	A	B+	B	B-	C	D	▣
	Superior	Very Strong	Strong	Satisfactory	Weak	Very Weak	Not applicable

Service Rating
The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Image & Strategy Rating
The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Business Performance Rating
This review is an assessment of how the company and the brand has fared against its peers, and how it is perceived externally. Effectively this is how it has performed recently in the market. Whilst it will include performance indicators from the most recent available statutory reporting (report and accounts and SFCRs in the case of insurance companies, for example) it will also draw on other recent key performance elements before and after such disclosure, up to the point at which the assessment is undertaken.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity good or bad, press or market commentary, regulatory fines, and competitive position.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

ABOUT AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 30 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently, AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services to support the wider financial services sector and its customers.

AKG Financial Analytics Ltd
Anderton House,
92 South Street,
Dorking,
Surrey
RH4 2EW

Tel: +44 (0) 1306 876439
Email: akg@akg.co.uk
Web: www.akg.co.uk