Halifax Financial Brokers Limited

Annual report and accounts
for the year ended 31 December 2015

Registered office

Trinity Road
Halifax
West Yorkshire
United Kingdom
HX1 2RG

Registered number

2367078

Current directors

J M Black
M E Mazzocchi
R F C Taylor

Company Secretary

K J McKay

Member of Lloyds Banking Group

Directors' report
For the year ended 31 December 2015

The directors present their report and the audited financial statements of Halifax Financial Brokers Limited ("the Company") for the year ended 31 December 2015.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 2367078) and is regulated by the Financial Conduct Authority ("FCA").

The principal activity of the Company was to generate initial commission from the sale of annuity products under the trading name of Bank of Scotland Annuity Service ("BoSAS"). The changes announced to pensions in the 2014 Budget resulted in the cessation of new business income on annuity products.

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to credit, financial soundness risk and market risk are set out in note 15.

Key performance indicators ("KPIs")

The directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. Further information on the capital position of the Company is given in note 15.

The directors are of the opinion that the information on capital resource requirements submitted by regular return to the FCA, in conjunction with the information presented in the financial statements as a whole, provides the management information necessary for the directors to understand the development, performance and position of the business of the Company.

The Company also forms part of the Insurance Division of the Group ("the Division"). The development, performance and position of the Division are discussed in the financial statements of Lloyds Banking Group plc, which does not form part of this report.

Future outlook

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

Dividends

A dividend of £15,000,000, representing a dividend of £75 per share, was declared and paid during the year (2014: £nil).

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

A M Parsons (alternate to R A Jones)	(appointed 2 April 2015, resigned 16 June 2015)
R A Jones	(resigned 7 December 2015)
M E Mazzocchi	(appointed 9 December 2015)

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of directors who join the board of the Company during the financial year. Directors no longer in office but who served on the board of the Company at any time in the financial year have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are 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.

Directors' report (continued)

For the year ended 31 December 2015

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards ("IFRSs") as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

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

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Approved by the board of directors and signed on its behalf by:

Ronnie Taylor

R F C Taylor
Director

20 / 4 2016

Independent auditors' report to the member of Halifax Financial Brokers Limited

Report on the financial statements

Our opinion

In our opinion, Halifax Financial Brokers Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and accounts (the "Annual Report") comprise:

- the Balance sheet as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' report; and take advantage of the small companies exemption from preparing a Strategic report. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the member of Halifax Financial Brokers Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Adam Beasant

Adam Beasant (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

20 April 2016

Statement of comprehensive income

For the year ended 31 December 2015

	Note	**2015 £'000**	2014 £'000
Revenue	3	**670**	1,186
Investment income	4	**57**	30
Total revenue		**727**	1,216
Other operating expenses	5	**-**	(122)
Profit before tax		**727**	1,094
Taxation	8	**(147)**	(235)
Profit for the year attributable to owners of the parent, being total comprehensive income		**580**	859

The accompanying notes to the financial statements are an integral part of these financial statements.

Balance sheet
As at 31 December 2015

	Note	**2015** **£'000**	2014 £'000
ASSETS			
Cash and cash equivalents	10	**1,913**	17,092
Other current assets	11	**765**	94
Total assets		**2,678**	17,186
LIABILITIES			
Borrowed funds	12	**76**	-
Provision for liabilities and charges	13	**87**	163
Current tax liability		**147**	235
Total liabilities		**310**	398
EQUITY			
Share capital	14	**200**	200
Retained earnings		**2,168**	16,588
Total equity		**2,368**	16,788
Total equity and liabilities		**2,678**	17,186

The accompanying notes to the financial statements are an integral part of these financial statements.

The financial statements were approved by the board of directors and were signed on its behalf by:

Ronnie Taylor

R F C Taylor
Director

20 / 4 2016

Statement of changes in equity

For the year ended 31 December 2015

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2014	200	15,729	15,929
Profit for the year being total comprehensive income	-	859	859
At 31 December 2014	**200**	**16,588**	**16,788**
Profit for the year being total comprehensive income		580	580
Dividend paid to equity holders of the Company	-	(15,000)	(15,000)
At 31 December 2015	**200**	**2,168**	**2,368**

The accompanying notes to the financial statements are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2015

	2015 £'000	2014 £'000
Cash flows (used in)/generated from operating activities		
Profit before tax	**727**	1,094
Adjustments for:		
- Investment income	**(57)**	(30)
Changes in operating assets and liabilities:		
- Net (increase)/decrease in Other current assets	**(671)**	9,709
- Net (decrease)/increase in Provision for liabilities and charges	**(76)**	32
Cash (used in)/generated from operations	**(77)**	10,805
Group relief paid	**(235)**	(658)
Net cash (used in)/generated from operating activities	**(312)**	10,147
Cash flows generated from investing activities		
Investment income	**57**	30
Net cash generated from investing activities	**57**	30
Cash flows used in financing activities		
Proceeds from borrowings with group undertakings	**76**	-
Dividend paid to equity holders of the Company	**(15,000)**	-
Net cash used in financing activities	**(14,924)**	-
Change in cash and cash equivalents	**(15,179)**	10,177
Cash and cash equivalents at beginning of year	**17,092**	6,915
Cash and cash equivalents at end of year	**1,913**	17,092

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies

1.1 Basis of preparation

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

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

(i) Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2011 - 13 cycle of the annual improvements projects.

The application of this pronouncement has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2015 and which have not been applied in preparing these financial statements are given in note 19. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Revenue

Revenue, which arose wholly in the United Kingdom, consists of commission in respect of insurance and investment business and is stated net of commissions and fees paid for introduction of business. Revenue is recognised in the period in which it accrues.

Investment income

Interest income for all interest bearing financial instruments is recognised in the Statement of comprehensive income as it accrues, within Investment income.

1.3 Financial assets and liabilities

Financial assets comprise Other current assets and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired.

Interest bearing financial assets and financial liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

Management determines the classification of its financial assets and financial liabilities at initial recognition.

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

All financial assets are stated at amortised cost.

1. Accounting policies (continued)

1.4 Impairment

Financial assets

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

In order to determine whether financial assets are impaired, all financial assets for which the fair value has fallen below the recoverable amount are individually assessed using the factors above.

Impairment process

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

(i) Significant financial difficulty of the issuer or debtor;

(ii) A breach of contract;

(iii) The disappearance of an active market for that asset because of financial difficulties; or

(iv) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be allocated to the individual assets of the Company, including:

- Adverse changes in the payment status of issuers or debtors; or

- National or local economic conditions that correlate with defaults on the assets in the Company.

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

1.5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents comprise cash on hand, demand deposits and other short term highly liquid investments with original maturities of less than three months.

1.6 Taxation, including deferred income taxes

Tax on the profit or loss for the year is recognised in the Statement of comprehensive income within Taxation and comprises only current tax. No provision for deferred tax is required under IAS 12 "Income Taxes" as no timing differences have arisen which would result in deferred tax on assets and liabilities.

Current tax is the expected tax receivable on the taxable profit for the period, using tax rates enacted or substantively enacted at the reporting date, together with adjustments to estimates in prior years.

1.7 Provision for liabilities and charges

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

1.8 Share capital

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

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

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

3. Revenue

	2015 £'000	2014 £'000
New business commission	143	455
Renewal commission	527	731
	670	1,186

4. Investment income

	2015 £'000	2014 £'000
Investment income from Aberdeen Global Liquidity Fund (see note 16)	57	30

Until March 2014 the Aberdeen Global Liquidity Fund was known as the Scottish Widows Investment Partnership Global Liquidity Fund. The Scottish Widows Investment Partnership was a related party of the Company but was sold by the Group in March 2014 and ceased to be a related party from then.

5. Other operating expenses

	2015 £'000	2014 £'000
Other operating expenses	-	122

Fees payable to the Company's auditors for the audit of the financial statements of £14,000 (2014: £13,000) have been borne by a fellow group company and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

6. Staff costs

The Company did not have any employees during the year (2014: none).

7. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2014: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 16).

8. Taxation

	2015 £'000	2014 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	147	235
- Adjustments in respect of prior years	-	-
Current tax charge	147	235

Corporation tax is calculated at a rate of 20.25% (2014: 21.50%) of the taxable profit for the year.

8. Taxation (continued)

b) Factors affecting the tax charge for the year

Where taxation on the Company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 20.25% (2014: 21.50%), the differences are explained below:

	2015 £'000	2014 £'000
Profit before tax	**727**	1,094
Tax charge thereon at UK corporation tax rate of 20.25% (2014: 21.50%)	**147**	235
Factors affecting charge:		
- Adjustments in respect of prior years	**-**	-
Tax charge on profit on ordinary activities	**147**	235
Effective rate	**20.25%**	21.50%

The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

9. Dividends

In 2015, dividends totalling £75 per share were paid, representing a total dividend of £15,000,000 (2014: £nil).

10. Cash and cash equivalents

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

	2015 £'000	2014 £'000
Aberdeen Global Liquidity Fund	**1,913**	17,092

11. Other current assets

	2015 £'000	2014 £'000
Amounts due from group undertakings (see note 16)	**765**	94

Amounts due from group undertakings is unsecured, non-interest bearing and repayable on demand.

12. Borrowed funds

	2015 £'000	2014 £'000
Amounts due to group undertakings (see note 16)	**76**	-

Amounts due to group undertakings are unsecured, non-interest bearing and repayable on demand, although there is no expectation that such a demand would be made.

13. Provision for liabilities and charges

	Mortgage endowment provision £'000
At 1 January 2014	131
Charge for the year	120
Utilised during the year	(88)
At 31 December 2014	163
Utilised during the year	(76)
At 31 December 2015	**87**

The mortgage endowment provision relates to expected costs arising from endowment review cases. The amount of the provision has been calculated using past trends, experience to date of the percentage of cases upheld and average compensation payment made.

14. Share capital

	2015 £'000	2014 £'000
Allotted, issued and fully paid		
200,000 (2014: 200,000) ordinary shares of £1 each	**200**	200

15. Risk Management Policy

This note summarises the risks associated with the activities of the Company and the way in which these are managed.

15.1 Governance framework

The Company is part of the Insurance division within the Group, which has established a risk management function with responsibility for implementing the risk management framework within the Group.

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

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

Responsibility for the management of risk resides with the board of the Company, which has delegated its authority to the Insurance Executive Committee.

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

15. Risk Management Policy (continued)

15.2 Risk appetite

The Company has defined the methodology for the management of risk appetite and has approved appropriate limits. Where appropriate for each risk component, limits are defined in terms of the amount of capital required to be held to cover certain specific stressed scenarios.

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

15.3 Financial risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are credit, market and financial soundness risk.

Financial assets and financial liabilities are measured on an ongoing basis at amortised cost. Descriptions of how the various classes of financial instruments are measured, as well as how income and expenses are recognised, can be found under note 1.

Credit risk

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

Credit risk is managed in line with the Insurance Credit Risk Policy and the wider Group Credit Risk Policy.

Credit risk is not considered to be significant to the Company as cash is invested in a AAA rated liquidity fund.

Market risk

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

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk arises in respect of cash balances which are either held on deposit or invested in a cash fund, overdrawn balances, and the subordinated debt and also in respect of interest payable on subordinated debt. None of the other financial assets or financial liabilities of the Company are interest-bearing.

If interest rates were to increase or decrease by 25 basis points, the impact on profit and loss after tax is considered to be immaterial in respect of cash balances.

The Company is not exposed to equity and property risk or foreign exchange risk through its financial assets and financial liabilities.

15.4 Financial soundness risk

Financial soundness risk covers the risk of financial failure, reputational loss or loss of earnings and/or value arising from a lack of liquidity, funding or capital and/or the inappropriate recording, reporting or disclosure of financial, taxation and regulatory information.

15. Risk Management Policy (continued)

15.4 Financial soundness risk (continued)

Financial and regulatory reporting, tax and disclosure risk

The Company is exposed to the risk that policies and procedures are not sufficient to maintain adequate books and records to support statutory, regulatory and tax reporting and to prevent and detect financial reporting fraud.

Lloyds Banking Group plc has developed procedures to ensure that compliance with both current and potential future requirements are understood and that policies are aligned to its risk appetite. Lloyds Banking Group plc maintains a system of internal controls, consistently applied, providing reasonable assurance that transactions are recorded and undertaken in accordance with delegated authorities that permit the preparation and disclosure of financial statements and tax returns in accordance with IFRSs, statutory and regulatory requirements.

Lloyds Banking Group plc undertakes a programme of work designed to support an annual assessment of the effectiveness of internal controls over financial reporting, to identify tax liabilities and to assess emerging legislation and regulation.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments as they fall due, or can secure them only at an excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or from the inability to generate cash inflows as anticipated.

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

All of the financial assets of the Company are held for managing liquidity risk. Cash and cash equivalents of £1,913,000 (2014: £17,092,000) have no stated maturity but can be accessed on demand. Amounts due from group undertakings of £765,000 (2014: £94,000) are generally recoverable within one month from the reporting date.

Capital risk

Capital risk is defined as the risk that:

- The Company has insufficient capital to meet its regulatory capital requirements;
- The Company has insufficient capital to provide a stable resource to absorb all losses up to a confidence level defined in the risk appetite;
- The Company loses reputational status by having capital that is regarded as inappropriate, either in quantity, type or distribution; and/or
- The capital structure is inefficient.

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

The Company's objectives when managing capital are to have sufficient capital to safeguard the Company's ability to continue as a going concern.

The Company's objectives when managing capital are:

- To comply with the capital requirements set out by the FCA in the UK;
- To have sufficient further capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders; and
- When capital is needed, to require an adequate return to the shareholder by pricing mutual fund contracts according to the level of risk associated with the business written.

The Company's capital comprises all components of equity, movements in which are set out in the Statement of changes in equity. The Company receives most of its funding from its parent and does not raise funding externally.

15. Risk Management Policy (continued)

15.4 Financial soundness risk (continued)

Capital risk (continued)

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

	2015 £'000	2014 £'000
Regulatory capital held	**2,368**	16,788
Regulatory capital requirement	**10**	10

All minimum regulatory capital requirements were met during the year.

15.5 Legal and regulatory risks

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

The Company also faces a number of legal and prudential regulatory risks, reflecting the volume and pace of change within the UK. This impacts the Company both operationally, in terms of costs of compliance and uncertainty about regulatory expectations, and strategically, through pressure on key earnings streams. The latter could potentially result in major changes to business and pricing models, particularly in the UK retail market. Business planning processes continue to reflect change to the regulatory environment.

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

15.6 Fair values of financial assets and liabilities

The directors consider that there are no significant differences between the carrying amounts in the Balance sheet and the fair value.

16. Related party transactions

The Company is controlled by Halifax Financial Services (Holdings) Limited. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income for the year are set out below.

	2015 £'000	2014 £'000
Amounts due from group undertakings		
HBOS plc (see note 11)	**765**	94
Amounts due to group undertakings		
Lloyds Bank plc (see note 12)	**76**	-
Interest income		
Investment income from Aberdeen Global Liquidity Fund (see note 4)	**-**	10

Until March 2014 the Aberdeen Global Liquidity Fund was known as the Scottish Widows Investment Partnership Global Liquidity Fund. The Scottish Widows Investment Partnership was a related party of the Company but was sold by the Group in March 2014 and ceased to be a related party from then.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management is comprised of the directors of the Company and the members of the Lloyds Banking Group plc board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

16. Related party transactions (continued)

UK Government

In January 2009, the UK government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. HM Treasury's interest fell below 20% on 11 May 2015. As a consequence, HM Treasury is no longer considered to have a significant influence and ceased to be a related party of the Company for IAS 24 Related Party Disclosures purposes at that date.

17. Contingent liabilities and capital commitments

There were no contracted capital commitments at the balance sheet date (2014: £nil).

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs ("HMRC") adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct, management estimate that this would result in an increase in current tax liabilities for the Company of approximately £1,760,000 (including interest on overdue tax). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due on the Company.

18. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

19. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2015 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued September 2014)	A collection of amendments to IFRSs from the 2012 - 2014 cycle of the annual improvements projects.	Annual periods beginning on or after 1 January 2016
Annual improvement to IFRSs (issued December 2013)	A collection of amendments to IFRSs from the 2010 - 12 cycle of the annual improvements projects.	Annual periods beginning on or after 1 February 2015.
Amendments to IAS 1 'Disclosure Initiative'	The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.	Annual periods beginning on or after 1 January 2016

19. Future developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 9 'Financial Instruments' [1]	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised costs, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.	Annual periods beginning on or after 1 January 2018

1. At the date of this report, this pronouncement was awaiting EU endorsement.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

20. Ultimate parent undertaking and controlling party

The immediate parent company is Halifax Financial Services (Holdings) Limited (incorporated in England and Wales). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.