Halifax Financial Services (Holdings) Limited

Annual report and financial statements
for the year ended 31 December 2019

Registered office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Registered number

02357558

Current directors

S W Lowther
J Phythian

Company Secretary

K J McKay

Member of Lloyds Banking Group plc

Strategic report

For the year ended 31 December 2019

The directors present their Strategic report and the audited financial statements of Halifax Financial Services (Holdings) Limited (the "Company") for the year ended 31 December 2019.

The Company contr butes to the results of the Insurance Division of Lloyds Banking Group plc (the "Group" or "LBG").

Business overview

The Company acted as an intermediate holding company for its subsidiaries during the year ended 31 December 2019. It did not act in any other capacity.

The Company's result for the year shows a profit before tax of £21,000 (2018: £17,000). Net assets at 31 December 2019 were £210,955,000 (2018: £210,938,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Insurance Division, which is part of the Group. 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 risk, market risk, interest rate risk and financial soundness risk are set out in note 13.

Following the UK’s exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including the financial services sector. The Company is part of the Group, and, it is at that level that consideration of the many potential implications this may have has been undertaken. However, limited impact is anticipated for the Company, due to the minimal assets and operations within the Company as at 31 December 2019.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company’s directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. The development, performance and position of the Insurance Division are discussed in the Group's financial statements, which do not form part of this report.

Future outlook

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

There are risks arising from the outbreak of Coronavirus which has occurred since the balance sheet date. In view of its evolving nature, the Directors are unable to estimate its financial effect, however no significant impact is expected.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the ‘Act’) (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of Engagement with Employees and Other Stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with, and had regard to, the interest of key stakeholders only as the Company has no direct employees. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

The Directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of LBG, achieves long-term success and generates sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct. This approach has during the course of the year been central to the activities of the Directors, as discussed below.

Section 172(1) Statement (continued)

Shareholders

The Company is a wholly owned subsidiary of LBG, forming part of LBG's Insurance and Wealth Division. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where appropriate to those of LBG, ensuring that the interests of LBG as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic Report within the LBG Annual Report and Accounts for 2019, available on the LBG website.

Communities and the Environment

The Directors acknowledge that the Company, as part of one of the largest retail and commercial financial services providers in the UK, has responsibilities to invest in the communities in which it operates, to help them prosper economically and build social cohesion by tackling disadvantage. The Company participates in all related LBG initiatives, with the Directors ensuring the Company plays an appropriate role in LBG's related Helping Britain Prosper Plan. Further information in respect of the LBG approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the LBG Annual Report and Accounts for 2019. Additional information on LBG's Helping Britain Prosper Plan is available on the LBG website.

The Respons ble Business Committee of the Board of LBG is responsible for overseeing LBG's performance, including that of the Company, as a Responsible Business, by providing oversight of and support for LBG's strategy and plans for embedding responsible business as part of both LBG's and the Company's purpose to Help Britain Prosper. Priorities during the year have included ongoing focus on three key areas aligned to LBG's Bank of the Future strategy. These included consideration of the progress of the Lloyds Bank Academy and the external initiative 'future.now', both designed to boost digital skills in the UK.

Progress against agreed sustainability strategy was considered, where consistent progress was made in achieving targets such as providing support for the EV1000 electric vehicles initiative. Consideration was also given to the relationship between LBG and its charitable foundations, in particular the work they do in the communities in which LBG and the Company operate.

Further information in respect of LBG's and the Company's Responsible Business activities is included on pages 26 to 35 of the LBG Annual Report and Accounts for 2019, available on the LBG website, along with further discussion of the work of LBG's Responsible Business Committee.

How stakeholder interest has influenced decision making

The Directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of LBG, is to effectively manage the company to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

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

S W Lowther
Director

13 July 2020

Directors' report

For the year ended 31 December 2019

The directors present their report for the year ended 31 December 2019.

General information

The Company is a private company limited by shares, incorporated in the United Kingdom, registered in England and Wales and domiciled in England (registered number: 02357558).

Dividends

No dividends were paid or proposed during the year ended 31 December 2019 (2018 £nil).

Going concern

The directors are satisfied that it is the intention of the Group 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 year and the approval of the Annual report and financial statements:

G M Norton	(resigned 29 March 2019)
I H Price	(resigned 9 July 2019)
J Phythian	(appointed 9 July 2019)

Company Secretary

The following changes have taken place between the beginning of the reporting year and the approval of the Annual report and financial statements:

K J McKay	(appointed 31 December 2019)
C A Hankin	(resigned 31 December 2019)

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 1.

Statement of Engagement with Employees and Other Stakeholders

A statement of Engagement with Employees and other Stakeholders is included in the Strategic report page 1.

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 the director who joined the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this deed of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2019

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Company's financial statements in accordance with International 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

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors and disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- they have 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.

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

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

S W Lowther
Director

13 July 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Finance income	3	**21**	17
Profit before tax		**21**	17
Taxation	7	**(4)**	(3)
Profit for the year, being total comprehensive income		**17**	14

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

Balance sheet

As at 31 December 2019

	Note	**2019** **£'000**	2018 £'000
ASSETS			
Cash and cash equivalents	8	**2,857**	2,840
Trade and other receivables	12	**8**	9
Investment in subsidiary undertakings	9	**208,093**	208,093
Deferred tax asset	10	**1**	1
Total assets		**210,959**	210,943
LIABILITIES			
Trade and other payables	12	**-**	2
Current tax liability		**4**	3
Total liabilities		**4**	5
EQUITY			
Share capital	11	**-**	-
Retained earnings		**210,955**	210,938
Total equity		**210,955**	210,938
Total equity and liabilities		**210,959**	210,943

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:

S W Lowther
Director

13 July 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018	-	210,924	210,924
Profit for the year being total comprehensive income	-	14	14
At 31 December 2018	**-**	**210,938**	**210,938**
Profit for the year being total comprehensive income	-	17	17
At 31 December 2019	**-**	**210,955**	**210,955**

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

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows used in operating activities		
Profit before tax	**21**	17
Adjustments for:		
- Finance income	**(21)**	(17)
Changes in operating assets and liabilities:		
- Net decrease/(increase) in Trade and other receivables	**1**	(9)
- Net (decrease)/increase in Trade and other payables	**(2)**	2
Cash used in operations	**(1)**	(7)
Taxation paid	**(3)**	(2)
Net cash used in operating activities	**(4)**	(9)
Cash flows generated from/(used in) investing activities		
Finance income	**21**	17
Increase in Investment in subsidiary undertakings	**-**	(778)
Net cash generated from/(used in) investing activities	**21**	(761)
Change in Cash and cash equivalents	**17**	(770)
Cash and cash equivalents at beginning of year	**2,840**	3,610
Cash and cash equivalents at end of year	**2,857**	2,840

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 2019

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.

There have been no new IFRS pronouncements relevant to the Company adopted in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 16. No standards have been early adopted.

These separate financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemptions under IFRS 10 Consolidated Financial Statements and Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss.

1.2 Income recognition

Finance income

Finance income for all interest bearing financial instruments is recognised in the Statement of comprehensive income as it accrues.

Investment income

Dividend income is recognised when the right to receive payment is established.

1.3 Financial assets and liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Financial assets comprise Cash and cash equivalents and Amounts due from group undertakings. 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 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.

Cash and cash equivalents includes short-term highly liquid investments with original maturities of three months or less (excluding such investments as otherwise meet this definition but which are held for investment purpose rather than for the purpose of meeting short-term cash commitments). Holdings in liquidity funds are measured at fair value through profit or loss, with income received recognised in investment income.

The fair value of holdings in liquidity funds is determined as the last published price applicable to the vehicle at the reporting date. Holdings in liquidity funds are categorised as level 1 in the fair value hierarchy. These assets are valued using quoted prices in active markets for identical assets to those being valued. An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an on-going basis.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies

1.3 Financial assets and liabilities (continued)

All other financial assets and financial liabilities are stated at amortised cost.

Amounts due from group undertakings is assessed at the reporting date for impairment on a forward looking basis and where appropriate an expected credit loss ("ECL") is recognised based on reasonable and supportable information.

1.4 Dividends paid

Dividends on ordinary shares are recognised through equity in the period in which they are paid.

1.5 Taxation, including deferred income taxes

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

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

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

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

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

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

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

1.6 Investment in subsidiary undertakings

Investment in subsidiary undertakings is stated in the Balance sheet at cost less any provision for impairment.

Investment in subsidiary undertakings is reviewed for impairment losses at the end of each period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of comprehensive income for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset’s net realisable value and value in use. For the purposes of assessing impairment, investments are grouped at the lowest level at which cash flows are separately monitored by management.

1.7 Share capital

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

Notes to the financial statements (continued)

For the year ended 31 December 2019

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.

In the course of preparing these financial statements, no critical judgements been made in the process of applying the Company's accounting policies.

The following are critical accounting estimates that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of Investment in subsidiary undertakings

Where the recoverable amount of the Company's investments in subsidiary undertakings is considered to be less than the carrying value an impairment charge is recognised equal to the difference between the carrying value and the recoverable amount.

3. Finance income

	2019 **£'000**	2018 £'000
Interest on investment in a liquidity fund	**21**	17

4. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £5,000 (2018: £5,000) 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.

5. Staff costs

The Company did not have any employees during the year (2018: none).

6. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2018: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other respons bilities within the Group (see also note 12).

7. Taxation

	2019 **£'000**	2018 £'000
Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**4**	3

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

There are no reconciling differences between the actual tax charge and the tax charge when applying the effective tax rate to accounting profit.

8. Cash and cash equivalents

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

	2019 **£'000**	2018 £'000
Investment in liquidity fund	**2,857**	2,840

Investments held through liquidity funds are used to optimise returns on surplus funds held by the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2019

9. Investment in subsidiary undertakings

	2019 £'000	2018 £'000
Cost		
Cost brought forward	**238,891**	238,113
Additions	**-**	778
Cost at 31 December	**238,891**	238,891
Provision for impairment		
Provision at 1 January and 31 December	**(30,798)**	(30,798)
Carrying value of investments at 31 December	**208,093**	208,093

Investment in subsidiary undertakings is stated at cost less impairment. As permitted by section 611 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiaries.

The subsidiary undertakings at 31 December 2019 and 31 December 2018, listed below:

Subsidiary undertakings	**Company interest**	**Country of incorporation**	**Nature of business**
Halifax Financial Services Limited	100.00%	England & Wales	Service company
Halifax Financial Brokers Limited	100.00%	England & Wales	Financial Adviser company (closed book)
Halifax Investment Services Limited	100.00%	England & Wales	Service company
HBOS Investment Fund Managers Limited	100.00%	England & Wales	OEIC Management company
Clerical Medical Investment Fund Managers Limited	100.00%	England & Wales	Service company
Legacy Renewal Company Limited	100.00%	Scotland	Financial Adviser company (closed book)

Halifax Equitable Limited was placed into liquidation on 28 September 2018 and was dissolved on 4 September 2019.

The share capital of Legacy Renewal Company Limited was acquired on 17 August 2018 at fair value.

The registered address of all the above subsidiaries (except Legacy Renewal Company Limited) is Trinity Road, Halifax, West Yorkshire, HX1 2RG. The registered address of Legacy Renewal Company Limited is bank of Scotland, The Mound, Edinburgh, EH1 1YZ.

10. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2019 £'000	2018 £'000
At 1 January and 31 December	**1**	1

Deferred tax asset comprises:	2019 £'000	2018 £'000
Accelerated capital allowances	**1**	1

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent on 1 April 2020. The effect of this proposed rate change on the Company’s deferred tax balances has been assessed and is not significant.

Notes to the financial statements (continued)

For the year ended 31 December 2019

11. Share capital

	2019 **£'000**	2018 £'000
Allotted, issued and fully paid		
1 ordinary share of £1	**-**	-

All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company.

12. Related party transactions

The Company is controlled by the Insurance Division of the Group. A number of transactions are entered into with related parties in the normal course of business. A summary of the outstanding balances at the year end and the related income and expense for the year is set out below.

	2019 **£'000**	2018 £'000
Amounts due from group undertakings		
HBOS Financial Services Limited	**8**	9
Amounts due to group undertakings		
HBOS Financial Services Limited	**-**	2

Amounts due from group undertakings is unsecured, non-interest bearing and repayable on demand. All Amounts due from group undertakings are included within stage 1 for IFRS 9 purposes. The ECL is £nil.

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

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income.

Key management personnel

Key management personnel are those persons having authority and respons bility for planning and controlling the activities of the Company. Accordingly, key management comprises the directors of the Company, the directors of the Insurance Division 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.

13. Financial risk management

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

13.1 Governance framework

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

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Company is exposed to, with risks categorised according to an approved risk language. This covers the principal risks faced by the Company, including the exposures to credit, market, interest rate, regulatory, liquidity and capital risks. The performance of the Company and the strategic management of the business depend on its ability to manage these risks.

Responsibility for setting and managing risk appetite and risk policy resides with the Board. Risks are managed in line with the Group and Insurance division risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee ("ROC") with operational implementation assigned to the Insurance and Wealth Risk Committee ("IWRC").

The risk management approach aims to ensure effective independent checking or "oversight" of key decisions by operating a "three lines of defence" model. The first line of defence is line management, who have direct accountability for risk decisions. The Risk function provides oversight and challenge and is the second line of defence. Internal Audit, the third line of defence, provide independent assurance to the Insurance Audit Committee, Insurance Board and the Company Board that risks are recognised, monitored and managed within acceptable parameters.

Policy owners, identified from appropriate areas of the Group, are respons ble for drafting risk policies, for ensuring that they remain up-to-date and for facilitating any changes. Policies are subject to at least an annual review. Limits are prescribed within which those responsible for the day to day management of each Group 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.

13. Financial risk management (continued)

13.2 Risk appetite

Risk appetite is the amount and type of risk that the Board prefers, accepts or wishes to avoid and is aligned to Group strategy. The Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks (credit, market, interest rate, liquidity and capital), operational risks, people, conduct risks, regulatory & legal risks, model risk and governance risks. The risk appetite statements set limits for exposures to the key risks faced by the business. Risk appetite is reviewed at least annually by the Board. Executive owned Tier 2 and Tier 3 limits sit beneath Board owned risk appetite (Tier 1) and are managed and governed within the Insurance business.

Experience against Risk Appetite is reported monthly (by exception) to each meeting of IWRC and ROC. Copies are also supplied regularly to the Group's regulators as part of the close and continuous relationship. Reporting focuses on ensuring, and demonstrating to the Board, and their delegate the ROC that the Group is run in line with approved risk appetite. Any breaches of risk appetite require clear plans and timescales for resolution.

13.3 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 risk and financial soundness risk.

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.

Cash and cash equivalents comprises investments in a liquidity fund and are carried at fair value through profit and loss, and are valued at level 1.

Credit risk

Credit risk is the risk that counterparties with whom we have contracted, fail to meet their financial obligations, resulting in loss to the Company.

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

Credit risk to the Company arises primarily from exposure to financial assets at fair value through profit or loss. Cash and cash equivalents consists of holdings in the Aberdeen Liquidity Fund, which is rated AAA by S&P Global Rating's. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

Market risk

Market risk is defined as the risk that unfavourable market movements lead to reductions in earnings and/or value. Management considers this risk to be low as the only financial asset held is Cash and cash equivalents.

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 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.

If interest rates were to increase or decrease by 25 basis points, the impact on profit after tax would be an increase or decrease respectively of £7,000 (2018: £8,000) 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.

Notes to the financial statements (continued)
For the year ended 31 December 2019

13. Financial risk management (continued)

13.4 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.

Financial 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.

The Group 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. The Group 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 and statutory requirements.

The Group 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 defined as the risk that the Company has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from the inability to generate cash inflows as anticipated.

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

Capital risk

Capital risk is defined as the risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Company.

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

The Company's objectives when managing capital are:

- to have sufficient capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders; and
- when capital is needed, to require an adequate return to the shareholder by pricing contracts according to the level of risk associated with the business written.

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

13.5 Non-financial risks

The Company faces a variety of non-financial risks through its operations and service provision. The primary non-financial risk categories are: Conduct risk, Governance risk, Operational risk, Change risk, Cyber and information security risk, Data management risk, IT systems risk and People risk.

The Company manages these risks by following the embedded Risk Management Framework, which uses methodologies and systems consistent with those implemented across the Group.

13.6 Fair values of financial assets and liabilities

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

14. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance sheet date (2018: £nil).

15. Post balance sheet events

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

16. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2019 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs (including IAS 1 Presentation of Financial Statements).	Annual periods beginning on or after 1 January 2020

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

17. Ultimate parent undertaking and controlling party

The immediate parent company is HBOS Financial Services Limited (Incorporated in England and Wales).

HBOS Financial Services Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

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

Independent Auditors' report to the member of Halifax Financial Services (Holdings) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Halifax Financial Services (Holdings) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements for the year ended 31 December 2019 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the respons bilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Independent Auditors' report to the member of Halifax Financial Services (Holdings) Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' respons bilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Neil Riches

Neil Riches (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

15 July 2020