Halifax Share Dealing Limited

Annual Report and Financial Statements
31 December 2021

Registered office

Trinity Road
Halifax
West Yorkshire
HX1 2RG
United Kingdom

Registered number

03195646

Directors

M.A. Pardavila-Gonzalez
J.P. O'Dwyer
S.C. Guild
J.M. Hopper
A.C. Bone
R.L. Anderson (Appointed 23/09/2021)
A.P. Walkling (Appointed 23/09/2021)

Company Secretary

P. Gittins

Annual Report and Financial statements
for the year ended 31 December 2021

Page(s)

The directors present their strategic report for Halifax Share Dealing Limited (the "Company") for the year ended 31 December 2021. The Company is part of Lloyds Banking Group plc (the "Group").

Business Overview

During the year the Company was primarily engaged in the business of execution only stockbroking.

The Company provides a service for retail customers to buy and sell, on a self-directed, non-advised basis, securities of companies listed on the London Stock Exchange, together with funds, bonds and gilts. Additionally, customers can trade securities listed on international exchanges, covering both US and European markets. These services are available through online, mobile and telephony channels.

The Company is regulated by the Financial Conduct Authority ("FCA").

Review of the business

In the first half of the year, strong market recovery coupled with ongoing Covid-19 Winter lockdown restrictions led to increased customer trading activity across both UK and US markets. As we approached the second half of the year, lockdown restrictions eased and we experienced an expected drop off in customer trading activity to what we now view as more normalised levels, whilst still reflecting the positive impact that new customer growth and sustained market volatility have had on our business model over the last 2 years. To further diversify income streams and reduce the Company's exposure to trading volume fluctuations and interest rate volatility, fixed customer fees were introduced on a number of core brands in April 2021, with first fee collections due in April 2022.

Following an exceptional 2020 performance, revenue dropped by 3% in 2021. This marginal reduction was driven by the impact of an historically low UK base rate on our ability to earn interest on client cash balances. After allowing for £2.7m of integration and development costs associated with the acquisition of Embark Group Limited by Scottish Widows Group Limited (see Future Developments below), profit before tax of £17.1m (2020: £21.8m) fell by 22% compared to 2020. The Company delivered strong returns for its parent whilst maintaining robust capital and liquidity positions at all times.

As the pandemic restrictions continue to ease, the Company continues to prioritise the welfare of colleagues, while maintaining operational service levels. As we embed a new hybrid working model where colleagues will have the option to split their working week between office and home, we will ensure that appropriate safeguarding measures remain in place at all times.

The Company maintained rigorous control over its direct cost base, despite operational, legal and regulatory cost pressures.

Key performance indicators (KPIs)

Although the Company's income statement will always be the principal indicator of performance, the following KPIs are primary drivers of performance:

	Change in Year
Daily average trades:	-6%
Client cash balances:	+9%

As at 31 December 2021 net assets were £75.7m (2020: £61.9m).

As at 31 December 2021, the firm is a significant IFPRU EUR 730k limited activity investment firm and under FCA rule IFPRU 9.1.3R is required to disclose its return on assets. The 2021 figure of 7.8% (2020: 12.0%) is calculated by dividing profit after tax by average assets.

The Company's performance is reported in the monthly management accounts to the directors and discussed at board meetings held at regular intervals.

Future developments

On 31 January 2022, Scottish Widows Group Limited, a subsidiary of the Group, acquired 100% of the ordinary share capital of Embark Group Limited which, together with its subsidiaries, operates an investment and retirement platform business. The acquisition will enable the Group to re-platform its pensions, investment and retirement propositions, delivering a market-leading direct to consumer and intermediary platform, significantly strengthening its pensions and investments offering.

Principal risks and uncertainties

The key risks and uncertainties faced by the Company are managed under a framework established for the Group. Within this framework, risks are identified, measured, and managed to achieve a balance between risk and reward which is acceptable to the Company.

A focus on aligning the taking of risk with the achievement of business objectives means that control systems are designed to manage, rather than eliminate, risk and can provide reasonable – and not absolute – assurance against material loss.

The Company, as part of the Insurance and Wealth division, has a dedicated risk team. This team functions under the operational risk framework prescribed by the Group.

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This has had significant adverse economic effects on financial markets and energy costs, and has increased the risk of cyber attacks, all of which could have a materially adverse effect on the Company's operations, financial performance or future prospects. The Company has not identified any direct impacts and in conjunction with the Group will continue to monitor the situation closely.

Operational Risk

The framework deals for the most part with operational risk. It involves a wide range of controls which are the subject of continuous assessment and monitoring, including measures aimed at countering the risks from fraud.

One of the most important operational risks is associated with the Company's IT configuration. The effective management of this risk includes the existence of a comprehensive and well-planned back-up arrangement in the event of major systems failure, including the use of alternative sites to ensure business continuity and minimal disruption to customer service. These arrangements are provided by the Group, and are subject to regular review, testing and development.

Operational resilience is constantly monitored. Transactional activity is almost wholly online, with an average of 96% of these transactions achieved by straight through processing. There is robust oversight of third party suppliers and in addition our market counterparties are regulated by the FCA and hence are required to hold adequate capital to protect against failure.

As the Company is regulated by the FCA and under the scope of the Client Assets (CASS) rules, this includes the risk of failure to adequately protect clients' assets. The Company manages these risks through documented operational processes and controls, and strong governance and oversight from Risk, CASS and other relevant committees.

As a result of the pandemic, a number of these risk mitigations have come to the fore. Part of the Business Continuity Plan (BCP) plan was invoked to enable the majority of colleagues to work from home in line with government guidelines. The Company sought additional reassurance from key suppliers that operational continuity would be maintained at all times, and robust contingency plans remain in place in the event of key supplier outages. The Company largely maintained pre-pandemic operational service standards throughout the extended lockdown period.

Market Risk

As an execution only stockbroker, the Company recognises the risks associated with stock market volatility which can result in trading volume fluctuations and associated profit impacts. There are many factors which can trigger sudden and substantial movements in equity and debt securities, including major world events. Although extreme price movements of this nature are rare, it is important that the Company is prepared and able to react, including the capability to respond to increased levels of investor activity. The Company's well-established online and telephony capabilities are naturally suited to handle surges in activity of this kind.

In some instances, certain stocks may be suspended and in exceptional circumstances the market itself may be closed temporarily. Even within a more normal market, price volatility is a common occurrence, and the Company has appropriate controls in place to deal with these events.

Credit, interest and exchange rate risk

Exposure to credit, interest rate and foreign currency risk arises in the normal course of the Company's business. Management employs appropriate policies to manage these risks. Details of their risk management are included within the notes to the financial statements.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2020, 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 line 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 the Group, and as such follows many of the processes and practices of the Group, which are further referred to in this statement where relevant.

Customers

The Directors ensure the Company, as part of the Group, works towards achieving the Group's customer ambitions and focusing on treating customers fairly. The Directors have also worked to agree customer plans, regularly reviewing customer behaviour and customer pricing to understand areas where improvements can be made. The Group regularly benchmarks amongst its customers the performance of itself and its subsidiaries and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience.

Shareholders

The Company is a wholly owned subsidiary of the Group, forming part of the 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 required to those of the Group, ensuring that the interests of the Group as the Company's sole and ultimate shareholder are duly acknowledged. Further information in respect of the Group's relationship with its shareholders can be found within the Strategic Report section of the Group's 2021 Annual Report and Accounts, which does not form part of this report, available on the Group's website.

Communities and the Environment

The Board ensures it continues to participate and play an appropriate role in Group related initiatives, including Helping Britain Recover, by actively managing its current customer base. Further information in respect of the Group's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report section of the Group's 2021 Annual Report and Accounts. Additional information on the Group's Helping Britain recover Plan is available on the Group's website.

Section 172(1) Statement (Continued)

Regulators

The Company provides regular updates on its current status to relevant regulators including disclosures on it capital and liquidity position. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of the Group, including that of the Company, to managing regulatory change is detailed further within the Group's 2021 Annual Report and Accounts.

How stakeholder interest has influenced decision making

The Directors acknowledge that one of the primary responsibilities of the Board is to ensure that the strategy of the Company, in line with Group strategy, is to effectively manage its customer base 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 conduct standards.

Approved by the Board of Directors and signed on its behalf by:

Scott Guild

S.C. Guild
Director
7 April 2022

The directors present their annual report and audited financial statements for Halifax Share Dealing Limited for the year ended 31 December 2021. Principal risks and uncertainties, future developments, employee engagement and business relationship disclosures have been considered and included within the Strategic Report.

Going Concern

The directors have given careful consideration to the future prospects of the Company in deciding upon the appropriateness of the going concern basis of preparation. Throughout 2020 & 2021, operational resilience has been a key area of focus, with business continuity plans being invoked to ensure that colleagues were protected at all times and that there was minimal disruption to core customer services as we transitioned and adapted to a new way of working. The majority of staff were supplied with laptops and other equipment to allow them to work from home. The Company's core operating platform and other IT systems performed well, absorbing increased customer demand at various points throughout both years.

Profits associated with high trading volumes have further strengthened the Company's capital and liquidity positions, both of which are well in excess of internal and regulatory requirements. In setting regulatory limits, capital and liquidity stress testing took full account of the impacts of Covid-19 in determining the appropriate levels to hold. At point of final approval of these financial statements, 2022 trading volumes and associated revenues remain strong and should enable the Company to further strengthen both its capital and liquidity positions going forward.

Finally, in addition to the above the Company also has a letter of support from the Group which states that it will support the Company to meet its commitments and liabilities as they fall due.

On this basis, the Board considers the Company to be a going concern.

Post Balance Sheet Events

As noted in the Strategic Report and note 17, there is one post balance sheet event relating to the Russian invasion of Ukraine.

Dividends

No dividends were declared and paid during the financial year (2020: nil).

Political and Charitable Donations

No political donations were made during the year (2020: nil). No charitable donations were made during the year (2020: £14k).

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

M.A. Pardavila-Gonzalez
J.P. O'Dwyer
S.C. Guild
J.M. Hopper
A.C. Bone
R.L. Anderson (Appointed 23/09/2021)
A.P. Walkling (Appointed 23/09/2021)

Directors' indemnities

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

Directors' indemnities (Continued)

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

Employees

The colleagues in the Company are employed by the Group. Although the Company does not employ them directly, the Company where feasible, uses regular communication to keep them informed regarding the Company's progress and plans for the future.

The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group. If employees become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Colleagues are encouraged to be involved in the Group's performance through participation in an incentive scheme and various share ownership schemes provided by the Group.

The Board wishes to express its appreciation to all colleagues for their continued hard work during these challenging times. The resilience demonstrated throughout the pandemic, and outstanding commitment to meeting our customer's needs, have been exemplary.

Suppliers

Supplier Management is delivered to the Company through an arrangement with the Group. The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref. URN 04/606.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. In conjunction with Group, it is the Company's policy to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

Due to the arrangement between Group and the Company, the Company owed no amounts directly to trade creditors as at 31 December 2021 (2020: nil).

Environment

The Company is included within the Lloyds Banking Group Streamlined Energy and Carbon Reporting ("SECR") requirements to meet Energy and Carbon Report Regulations 2018. Relevant disclosures can be referenced in the 2021 Group Annual Report & Accounts.

Risk Management Objectives

The Company has a requirement to disclose its financial risk management objectives in accordance with International Financial Reporting Standards 7 (IFRS7, Financial Instruments: Disclosures). This can be found within note 18 of the notes to the financial statements.

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs). 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Directors' confirmations

In the case of each director in office at the date the Director's 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
- that 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.

Independent Auditors

Following the completion of a tender process, Deloitte LLP were appointed as auditors of the Company for accounting periods ending on or after 31 December 2021. Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed each financial year unless the directors of the Company resolve to terminate their appointment.

Approved by the Board of Directors and signed on its behalf by:

Scott Guild

S.C. Guild
Director
7 April 2022

Independent auditor's report to the members of Halifax Share Dealing Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Halifax Share Dealing Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) ; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 19, excluding the capital adequacy disclosures which are disclosed as unaudited within note 19.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

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

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:
- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included compliance with FCA regulations.

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

As a result of performing the above, we identified the greatest potential for fraud to relate to the accuracy of commission revenue recognised in relation to trading activity. We designed and performed specific procedures to address this risk which involved obtaining an understanding of the Company's bargain trading process and relevant controls around the recognition of commission revenue, using data analytics to recalculate the charge expected to be applied to individual trades, based on the Company's rate cards, and testing a sample of transactions to supporting evidence.

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

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with the FCA.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

T. Noble

Tom Noble, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
7 April 2022

HALIFAX SHARE DEALING LIMITED - COMPANY NUMBER 03195646
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	**2021 £'000**	2020 £'000
Revenue	2	**44,538**	46,028
Cost of Sales		**(4,816)**	(5,346)
Net revenue		**39,722**	40,682
Operating expenses	3	**(22,426)**	(18,400)
Impairment provision charge	8	**(84)**	(225)
Finance costs	4	**(144)**	(309)
Operating profit		**17,068**	21,748
Finance income		**10**	55
Profit before taxation		**17,078**	21,803
Taxation	6	**(3,253)**	(4,149)
Profit after taxation		**13,825**	17,654
Total Comprehensive Income, net of tax		**13,825**	17,654

The profit shown above is derived from continuing operations and all profit is derived from activities within the United Kingdom.

The notes on pages 17 to 27 are an integral part of these financial statements.

HALIFAX SHARE DEALING LIMITED - COMPANY NUMBER 03195646
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Investments in subsidiaries	7	**1**	1
		1	1
Current assets			
Trade and other receivables	8	**78,423**	132,775
Cash and cash equivalents	9	**76,358**	66,671
		154,781	199,446
Total assets		**154,782**	199,447
Current liabilities			
Current tax liabilities	6	**3,253**	4,149
Trade and other payables	11	**72,860**	132,497
Bank overdrafts	10	**2,947**	904
		79,060	137,550
Total liabilities		**79,060**	137,550
Equity			
Share Capital	12	**15,000**	15,000
Retained earnings		**60,722**	46,897
Total Equity		**75,722**	61,897
Total equity and liabilities		**154,782**	199,447

The notes on pages 17 to 27 are an integral part of these financial statements.

The financial statements on pages 13 to 27 were approved by the Board of Directors and were signed on its behalf by:

Scott Guild

S.C. Guild
Director

7 April 2022

HALIFAX SHARE DEALING LIMITED - COMPANY NUMBER 03195646
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Issued Capital	Retained Earnings	Total Equity
	£'000	£'000	£'000
Balance at 1 January 2020	**15,000**	**29,243**	**44,243**
Profit and Total Comprehensive Income for the year	-	17,654	17,654
Balance at 31 December 2020	**15,000**	**46,897**	**61,897**
Balance at 1 January 2021	**15,000**	**46,897**	**61,897**
Profit and Total Comprehensive Income for the year	-	13,825	13,825
Balance at 31 December 2021	**15,000**	**60,722**	**75,722**

HALIFAX SHARE DEALING LIMITED - COMPANY NUMBER 03195646
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Cash flow generated from operating activities			
Profit before taxation		**17,078**	21,803
Adjustments for:			
Interest received		**(10)**	(55)
Operating profit before changes in working capital and provisions		**17,068**	21,748
Decrease / (Increase) in trade and other receivables		**54,352**	(84,117)
(Decrease) / Increase in trade and other payables		**(59,638)**	84,875
Cash Generated by Operations		**11,782**	22,506
Income tax paid		**(4,148)**	(1,398)
Net cash generated from operating activities		**7,634**	21,108
Cash flows generated from investing activities			
Interest received		**10**	55
Net cash generated from investing activities		**10**	55
Net increase in cash and cash equivalents		**7,644**	21,163
Cash and cash equivalents at 1 January		**65,767**	44,604
Cash and cash equivalents at 31 December		**73,411**	65,767
Cash and cash equivalents comprise			
Cash at bank	9	**76,358**	66,671
Bank overdrafts	10	**(2,947)**	(904)
Net cash and cash equivalents		**73,411**	65,767

The notes on pages 17 to 27 are an integral part of these financial statements.

1. ACCOUNTING POLICIES

The Company is a private company, limited by shares, and incorporated and domiciled in England, the United Kingdom.

1.1 BASIS OF PREPARATION

The financial statements are presented in sterling, rounded to the nearest thousand, and prepared on an historical cost basis. All accounting policies have been consistently applied in the financial statements.

These financial statements have been prepared in accordance with and comply with International Accounting Standards comply with International Financial Reporting Standards IFRSs in conformity with the requirements of the Companies Act 2006. The Company has taken exemption from the requirement of preparing consolidated financial statements, under s.400 of the Companies Act 2006, as the Company will be included within the consolidation of a larger group headed by Lloyds Banking Group plc. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The financial statements have been prepared on the going concern basis. The Company has access to Group funding if required. The directors received letters of support from the Group in February 2022. They 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.

1.2 ACCOUNTING ESTIMATES

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised if the revision affects only that financial year or in the period of the revision and future financial years if the revision affects both current and future financial years. The Directors consider that there are no judgements or estimates which have a significant effect on the financial statements.

1.3 REVENUE

The Company provides a service for retail customers to buy and sell, on a self-directed, non-advised basis, securities of companies listed on the London Stock Exchange, together with funds, bonds and gilts. Additionally, customers can trade securities listed on international exchanges, covering both US and European markets. These services are available through online, mobile and telephony channels.

Revenue is derived from the transfer of services over time and at a point in time in respect of the following: Commission, foreign exchange gains, fee income and interest income.

Commission and foreign exchange gains are earned on the placement of customer trades. Income is recognised when trades are executed.

The Company earns fee income from a range of services it provides to clients. Fee income can be divided into two broad categories: annual fixed customer account fees; and fees earned from point in time services such as ad-hoc payment requests. Fixed customer account fees are recognised on a pro-rata basis over a set period of time, other ad-hoc fees are recognised at the point in time that the service is provided.

Interest income is primarily earned on client money balances placed with banking counterparties. Income is recognised in the income statement on an accruals basis, calculated using agreed interest rates and the carrying value of the financial asset.

1.4 COST OF SALES

Costs directly attributable to trading activities such as custody and brokerage fees, are charged to cost of sales and are recognised on an accruals basis.

1. ACCOUNTING POLICIES (Continued)

1.5 INVESTMENTS IN SUBSIDIARIES

Investment in subsidiaries is stated at cost less provision for impairment. The directors believe that the carrying value of the investments is supported by their underlying net assets.

1.6 FINANCIAL ASSETS

Where applicable, financial assets are recognised at their amortised cost less expected credit losses. The Company's financial assets include trade and other receivables and cash and cash equivalents. The subsequent measurement of financial assets depends on their classification as follows:

Trade and other receivables

Trade and other receivables include accrued income, trades in the course of settlement (market and client debtors) and other debtors. They are measured at amortised cost, less expected credit losses.

Cash and cash equivalents

The Company holds bank accounts with a Group subsidiary (Bank of Scotland) and a number of other non-related parties. These accounts are held in the Company's name and meet the definition of cash and cash equivalents.

1.7 IMPAIRMENT OF FINANCIAL ASSETS

The Company applies the IFRS 9 simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables. Lifetime ECL is the ECL that result from all possible default events over the expected life of a financial instrument.

To measure the ECL, trade and other receivable are based on credit risk characteristics and the days past due. The expected loss rates are based on the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Write-offs

The gross carrying amount of trade and other receivables is written off when there is no reasonable expectation of recovering the contractual cash flows. Written off balances are presented within operating expenses.

1.8 TAXATION

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 other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

1. ACCOUNTING POLICIES (Continued)

1.9 TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost.

1.10 CLIENT MONEY

The Company holds money on behalf of clients in accordance with the FCA's Client Assets Sourcebook (CASS). This is held off balance sheet as the Company holds no rights or obligations in respect of this balance.

1.11 SHARE-BASED COMPENSATION

The profit of the Company is stated after charging an amount of £308k (2020: £279k) in respect of services received by the Company which have been settled by way of equity-settled share-based payment arrangements.

All staff providing services to the Company are employed by the ultimate parent undertaking, Lloyds Banking Group Plc, in whose shares settlement is made. The amount charged is recharged on a proportionate basis from Lloyds Banking Group Plc. Details of the share-based payment schemes within the Group are included on an aggregated basis in the Lloyds Banking Group Plc consolidated financial statements.

1.12 FOREIGN CURRENCIES

Items included in the financial statements are measured using the functional currency. Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within revenue.

1.13 SHARE CAPITAL AND BASIS OF CONSOLIDATION

Under the provisions of IAS 27 and under Section 400 of the Companies Act 2006, the Company has elected not to present consolidated financial statements. The financial statements present information about the undertaking as an individual undertaking and not about its Group. Group financial statements incorporating the financial statements of the Company and its subsidiary undertakings are prepared in accordance with IFRSs by the Company's ultimate parent undertaking, the Group, which is registered in Scotland. Information on the ultimate controlling parent and immediate parent can be found in note 15.

1.14 FUTURE ACCOUNTING DEVELOPMENTS

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a material impact on the Company.

2. REVENUE

	2021	2020
	£'000	£'000
Commission	**22,680**	27,958
Fee income	**8,655**	3,330
Foreign exchange	**11,387**	9,220
Interest income	**1,816**	5,520
	44,538	46,028

Following the introduction of fixed customer fees on a number of core brands in April 2021, 2020 Commission and Fee income have been separated to reflect the change in charging structure and the increased significance of fees as a revenue stream.

3. OPERATING EXPENSES

	2021	2020
	£'000	£'000
Fees payable to the Company's auditors and its associates in respect of:		
CASS audit-related assurance services	**210**	332
Audit of the Company's financial statements	**82**	71
Operating costs recharged from Group (see note 14 (b))	**14,504**	13,514
Other Direct Costs	**7,630**	4,469
Charitable donations	**-**	14
	22,426	**18,400**

Other Direct Costs include £2,662k (2020: £nil) of integration and development costs associated the acquisition of Embark Group Limited by Scottish Widows Group Limited.

4. FINANCE COSTS

	2021	2020
	£'000	£'000
Interest payable to Self-invested Personal Pension customers	**137**	286
Bank overdraft charges	**7**	23
	144	309

5. DIRECTORS' EMOLUMENTS

The Company employed no permanent staff directly during the year (2020: Nil). A recharge is made by the Group to cover the costs of staff seconded to the Company. Of the directors that served during the year, 2 (2020: 2) were remunerated in relation to their services as directors of the Company. The remaining directors were not remunerated by the Company as their time was incidental relative to their other services to the Group.

	2021	2020
	£'000	£'000
Total emoluments	**407**	331
Pension contributions	**32**	42
Highest paid director:		
Total emoluments	**256**	193
Pension Contributions	**27**	24

In 2021, the balance includes the value of bonuses awarded in the year. At 31 December 2021 the value of outstanding deferred bonuses was £nil (2020: £414).

One director had retirement benefits accruing under a defined benefit scheme operated under the Company's ultimate parent company. The value of accrued benefits at year ended 31 December 2021 was £32k (2020: £31k).

6. TAXATION

Analysis of tax charge for the year:	**2021**	2020
	£'000	£'000
Current tax on taxable profit for the year	**(3,245)**	(4,143)
Adjustments in respect of prior years	**(8)**	(6)
Current tax charge	**(3,253)**	(4,149)

Corporation tax is calculated at a rate of 19% (2020: 19%) of the taxable profit for the year.

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before taxation to the actual tax charge for the year is given below:

	2021	2020
	£'000	£'000
Profit before taxation	**17,078**	21,803
Tax charge thereon at UK corporation tax rate of 19% (2020: 19%)	**(3,245)**	(4,143)
Factors affecting credit:		
Adjustments in respect of prior years	**(8)**	(6)
Total tax charge	**(3,253)**	(4,149)
Effective rate	**19.05%**	**19.03%**

7. INVESTMENTS IN SUBSIDIARIES

There was no movement in the Company's investment in subsidiaries during 2021 (2020: nil):

	2021	2020
Net book value:	**£'000**	£'000
As at 31 December	**1**	1

The Company's principal subsidiaries are shown below:

Subsidiary:	Percentage owned by the Company	Principal activity
Bank of Scotland Branch Nominees Limited	100%	Non-trading nominee company
HSDL Nominees Limited	100%	Non-trading nominee company
Share Dealing Nominees Limited	100%	Non-trading nominee company

The process to strike off Halifax Nominees Limited at Companies House commenced on 19th November 2020 and completed on 16th March 2021.

At 31 December 2021, the Company owns either directly or indirectly the entire Ordinary share capital of the above companies. The directors consider the value of the investments to be supported by their underlying assets. The Company has given a guarantee in respect of Bank of Scotland Central Nominees Limited. The extent of this guarantee is to such amount as may be required but not exceeding £100.

The subsidiary companies are incorporated and registered in England and Wales, registered office Trinity Road, Halifax, West Yorkshire HX1 2RG, except for Bank of Scotland Branch Nominees Limited and Bank of Scotland Central Nominees Limited which are incorporated in Scotland and registered office, The Mound, Edinburgh EH1 1YZ.

8. TRADE AND OTHER RECEIVABLES

	2021	2020
	£'000	£'000
Market Debtors	**31,592**	46,398
Client Debtors	**40,211**	84,586
Other Debtors	**181**	155
Less provision for Impairment of trade receivables	**(423)**	(339)
Trade receivables – net	**71,561**	130,800
Prepayments and Accrued Income	**6,862**	1,975
Trade and other receivables	**78,423**	132,775

The Company's maximum exposure to credit risk at the reporting date is the carrying value of trade receivables as per the following table. The Company mitigates its exposure to credit risk from trade and other receivables by establishing agreed payment period terms with customers. The average credit period granted is 9 days. No interest is charged on the receivables.

The Company has recognised an impairment provision for doubtful debts, using the IFRS 9 simplified approach. Impairment losses are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of customers and an analysis of customers' ability to settle future receivables. Any balances past due more than a day demonstrated a significant increase in credit risk and balances due more than 9 days are credit impaired.

Trade and other receivables ageing analysis as at 31 December 2021 as follows:

	Current	**1 - 9 days overdue**	**>9 days overdue**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Gross carrying amount	77,291	995	560	78,846
Loss allowance	(130)	(1)	(292)	(423)
Net carrying amount	**77,161**	**994**	**268**	**78,423**

Trade and other receivables ageing analysis as at 31 December 2020 as follows:

	Current	**1 - 9 days overdue**	**>9 days overdue**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Gross carrying amount	131,045	1,174	895	133,114
Loss allowance	(25)	(24)	(290)	(339)
Net carrying amount	**131,020**	**1,150**	**605**	**132,775**

Movements in the provision for impairment of trade receivables are as follows:

	2021	2020
	£'000	£'000
Provision at 1 January	**(339)**	(114)
Current year release / (charge)	**(84)**	(225)
Provision at 31 December	**(423)**	(339)

9. CASH AND CASH EQUIVALENTS

	2021 £'000	2020 £'000
Cash and Cash Equivalents	**76,358**	66,671

At 31 December 2021 the Company held bank deposits totalling £1,534m (2020: £1,408m) on behalf of clients. In accordance with FCA regulations and the CASS framework, this amount and the corresponding Client Creditor balances are not recognised in the financial statements.

10. BANK OVERDRAFTS

	2021 £'000	2020 £'000
Bank overdrafts	**2,947**	904

Amounts in respect of bank overdrafts are repayable on demand and form an integral part of the Company's cash management.

11. TRADE AND OTHER PAYABLES

	2021 £'000	2020 £'000
Market creditors	**39,306**	83,325
Client creditors	**26,137**	44,125
Amounts owed to group undertakings	**5,000**	2,097
Other creditors	**187**	143
Accruals and deferred income	**2,230**	2,807
Trade and other payables	**72,860**	132,497

12. SHARE CAPITAL

	2021 £'000	2020 £'000
Authorised, issued and fully paid share capital:		
15,000,000 (2020: 15,000,000) ordinary shares of £1 each	**15,000**	15,000

13. FINANCIAL INSTRUMENTS

Financial assets and liabilities carried at amortised cost

Both cash and cash equivalents and trade and other receivables are recognised on an amortised cost basis that is considered to be a close approximation to fair value due to short nature of these assets.

Trade and other payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value as they are deemed to be repayable on demand.

14. TRANSACTIONS WITH RELATED PARTIES

During the year the following related party transactions were entered into with other Group subsidiaries:

(a) Sales of services

	2021	2020
	£'000	£'000
Interest Receivable	**204**	46
Interest Paid	**(7)**	-
Other group commission	**20**	388
Total	**217**	434

Interest receivable relates to gross interest earned on cash, including client cash held other than for settlement, held on deposit with other Group subsidiaries.

Other group commission relates to trading activity administered by the Company on behalf of other divisions of the Group.

(b) Purchase of services

	2021	2020
	£'000	£'000
Staff		
Wages & salaries	**7,252**	6,338
Social security costs	**691**	592
Other pension costs	**1,146**	998
Information technology	**2,433**	2,078
Infrastructure (Property & Operations)	**2,982**	3,508
Audit of the Company's financial statements	**-**	71
Total	**14,504**	13,585

Staff costs include short-term employee benefits; share based payments; and post-employment benefits. The average headcount during the year was 299 (2020: 280).

(c) Balances due to and from group undertakings

These are included on the balance sheet as follows:

	2021	2020
	£'000	£'000
Assets		
Cash and cash equivalents	**27,227**	50,452
Liabilities		
Amounts owed to group undertakings	**5,000**	2,097
Bank overdrafts	**2,947**	904
	7,947	3,001

Cash and cash equivalents relate to Firm cash balances held in current accounts with another Group entity, Bank of Scotland Plc. Amounts owed to group undertakings at 31 December relate to services provided to the Company by the Group (see note 14 (b)). The amounts owed are generally settled on a monthly basis. Bank overdrafts are also held with Bank of Scotland Plc and are primarily used to facilitate customer trading activity on foreign markets.

14. TRANSACTIONS WITH RELATED PARTIES (Continued)

(d) Key management compensation

Further information regarding Directors' emoluments is included under note 5.

In line with the IAS24 declaration requirement, two directors held customer accounts with Halifax Share Dealing Limited on a normal arm's length basis. One traded during the financial year and paid commission and administration fees of £665 (2020: £205).

15. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is HBOS plc. Registered Office: The Mound, Edinburgh EH1 1YZ. The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is HBOS Plc. Copies of the consolidated annual report and accounts of HBOS Plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc. Registered Office: 25 Gresham Street, London EC2V 7HN, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and accounts 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.

16. CONTINGENT LIABILITIES

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 its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £1,820k (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

17. POST BALANCE SHEET EVENT

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This has had significant adverse economic effects on financial markets and energy costs, and has increased the risk of cyber-attacks, all of which could have a materially adverse effect on the Company's operations, financial performance or future prospects. The Company has not identified any direct impacts and in conjunction with the Group will continue to monitor the situation closely.

18. RISK MANAGEMENT

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. The carrying amount of the Company's financial liabilities is considered to be a close approximation to the contractual undiscounted cash flows. All financial liabilities are repayable within 60 days.

The Company operates a comprehensive liquidity risk management framework to comply with the provisions of the FCA Prudential Sourcebook for Investment Firms (IFPRU). Under chapter 7 of IFPRU the Company is is subject to the liquidity regime set out in Chapter 12 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU 12).

The new UK Investment Firm Prudential Regime (IFPR) came into force on 1st January 2022 and will apply to UK investment firms authorised under the Markets in Financial Instruments Directive (MIFID) as it is applied in the UK post Brexit. The Company falls within the scope of the new regime and has clear plans in place to fully comply with the liquidity requirements specified therein.

18. RISK MANAGEMENT (Continued)

Market risk

In the case of the Company the main market risk is based on volatility in customer trading activity due to adverse or favourable economic and market conditions which have the potential to impact equity prices.

If during the year trading volumes had been 20% higher or lower with all other variables held constant, the Company's income statement would be as shown in the table below

	-20% £'000	Trading Commission £'000	+20% £'000
Adjusted Trading Commission Income	18,143	22,679	27,215

The measure however is simplified in that it assumes an average rate per trade on commission bearing products offered to our customers. It does not recognise the impact of any management actions that, in the event of an adverse trading impact, could reduce the impact on trading related commission income.

Credit, interest and exchange rate risk

Exposure to credit, interest rate and foreign currency risk arises in the normal course of the Company's business. Management has appropriate risk management policies in place.

(a) Credit Risk

Credit risk is the risk of financial loss arising from a customer or market counterparty failing to settle financial obligations.

Exposure to credit risk arises in the normal course of the Company's business. The Company minimises this risk by requiring the majority of customers to pre-fund trades. Under exceptional arrangements, group affiliates may be extended a trading facility. This facility is capped and monitored on an on-going basis by a dedicated credit control team. Credit evaluations are performed on all customers requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk.

Trading undertaken by the Company on behalf of its retail customers ordinarily involves conducting trades through a number of market counterparties. As a consequence, the Company is exposed to the risk of failure of any one of the market counterparties with whom it engages.

Market counterparties are regulated by the FCA and are required to hold adequate levels of capital to protect against failure. As such they are regarded as low risk. In the unlikely event of failure of a market counterparty where settlement of trades has not taken place, since loss of principal is matched by having the collateral cover of related stock holdings, it follows that the measure of risk is restricted to that arising only from changes in market prices. This 'marked to market risk' is regarded as an acceptable on-going risk of business. However, the failure of significant market counterparty would have considerable implications for the market as a whole.

Since the Company rarely offers credit facilities to customers it is not exposed to significant credit risk as conventionally understood; the requirement is for most customers to fund their account in advance of trading.

This does not negate the need for rigorous internal control procedures around the settlement of trades, which continue to be tightly managed, minimising the risk and impact of customer default. It is for this reason that the Company has not made any further disclosure in relation to its credit risk requirements.

Changes in key assumptions would not have a material impact on the expected credit losses.

18. RISK MANAGEMENT (Continued)

Credit, interest and exchange rate risk (Continued)

(b) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at a different time. In relation to income earning financial assets and interest bearing financial liabilities, the Company does not have any interest rate exposure.

If during the year interest rates for financial assets had been 25 basis points (‘bps’) higher or lower with all other variables held constant, the Company's income statement would be as shown in the table below

	- 25 bps £’000	Gross interest income £’000	+25 bps £’000
Adjusted Interest Receivable	(2,040)	1,816	5,672

The measure however is simplified in that it assumes a rate change for interest bearing assets only. It does not recognise the impact of any management actions that, in the event of an adverse rate movement, could reduce the impact on net interest income.

(c) Exchange rate risk

The Company is exposed to exchange rate risk through the revaluation of US Dollar and Euro balances arising through the settlement cycle of customer trades. The Company monitors this on a daily basis and limits the exposure by purchasing or selling currency accordingly. Consequently individual currency movements of 25% would not have a material impact on the income statement.

19. CAPITAL REQUIREMENTS (Unaudited)

The Company complied with the FCA's capital adequacy requirements throughout 2021.

Capital is divided into tiers in line with FCA Handbook rules. The Company holds tier one capital in the form of shareholders' funds, after adjusting for items reflected in shareholders' funds which are treated differently for the purposes of capital adequacy.

Capital is actively managed by the company, as a year round activity, in line with Board approved policy. The objective of the capital management policy is to ensure adequate capital for the sustainability of the company. The company completes an annual Individual Capital Adequacy Assessment return (ICAAP, Pillar 2 capital requirement), supplemented by a quarterly FCA CoRep return (Pillar 1 capital requirement), and regular stress-testing monitoring. The breakdown of the capital balance comprises of share capital (£15m) and retained earnings (£60.7m).

The relative holdings of tiered capital comply with the FCA's capital gearing rules.

The new UK Investment Firm Prudential Regime (IFPR) came into force on 1st January 2022 and will apply to UK investment firms authorised under the Markets in Financial Instruments Directive (MIFID) as it is applied in the UK post Brexit. The Company falls within the scope of the new regime and has clear plans in place to fully comply with the capital requirements specified therein.