Halifax Loans Limited

Annual report and financial statements for the year ended 31 December 2017

Registered office

Trinity Road
Halifax
United Kingdom
HX1 2RG

Registered number

02312099

Current director

Ajey Agarwal

Company Secretary

David Hennessey

HALIFAX LOANS LIMITED

Director's report

For the year ended 31 December 2017

The director presents his report and the audited financial statements for Halifax Loans Limited ("the Company"), a company registered in England, for the year ended 31 December 2017. The Company is a wholly owned subsidiary of Bank of Scotland plc (BoS plc).

General Information

The principal activity of the Company is the provision of residential mortgages secured on property. The Company is no longer active in selling new mortgages or facilitating further advances for existing customers. The mortgage book is administered by BoS plc, the immediate parent company, on behalf of the Company, for which a management charge is levied.

Review of the business

The results for the year are set out in the Statement of comprehensive income on page 6. The Company's profit before tax for the financial year was £252k (2016: £963k) which has decreased compared to the prior year primarily due to 2016 benefiting from a one off £618k dividend.

The performance of the Company is assessed by management using key performance indicators based on the performance of the mortgage portfolio. These primarily consist of interest received and impairment provisions on loans and advances to customers.

Interest receivable in the year was £283k which decreased from £378k in 2016 due to loans and advances to customers steadily reducing to £6,916k in the year (2016: £8,632k) as the mortgage book continues to run off.

The impairment provision on loans and advances to customers is £70k (2016: £70k).

Dividends

No final dividend was paid or proposed during the year ended 31 December 2017 (2016: £nil)

Future developments

The Company continues to administer a decreasing mortgage book and there are no current plans to change this in the future.

Directors

The director of the Company, who was in office during the year and up to date of signing the financial statements is shown on the front cover. The following change has taken place between the beginning of the reporting year and the approval of the financial statements.

Craig James McKinlay served as a director of the Company until his resignation on 27 September 2017.

Director's indemnities

Lloyds Banking Group plc has granted to the director 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. Directors no longer in office but who served on the board of the Company at any time in the financial year have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of 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.

Statement of directors' responsibilities.

The directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulation.

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

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and

Director's report (continued)

For the year ended 31 December 2017

- 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.

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

In the case of each director in office at the date the Directors' 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 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.

Statement on going concern

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

Financial risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the Group. The key risks surrounding credit, liquidity, markets and operations are discussed in note 11. There are no areas of concern that carry significant risks of causing material adjustments to the carrying value of the Company's assets and liabilities.

Independent Auditors

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

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

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

Ajey Agarwal
Director

13 June 2018

Independent auditors' report to the members of Halifax Loans Limited

Report on the audit of the financial statements

Opinion

In our opinion, Halifax Loans Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with 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 (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2017, the Statement of comprehensive income, the Cash flow statement and 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 when:

- 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 Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities 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.

Independent auditors' report to the members of Halifax Loans Limited (continued)

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2017 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 Directors' Report.

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' responsibilities set out on page 1, 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 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.

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

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.

Independent auditors' report to the members of Halifax Loans Limited (continued)

Entitlement to Exemptions

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

Claire Turner

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

13 June 2018

Statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Interest receivable and similar income		**283**	378
Net interest income		**283**	378
Other income		**7**	3
Dividends received		**-**	618
Operating expenses	2	**(38)**	(36)
Profit before tax		**252**	963
Taxation	3	**(49)**	(69)
Profit for the year and total comprehensive income		**203**	894

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

Statement of financial position

As at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Amounts owed by group companies	4	**-**	618
Loans and advances to customers	5	**6,846**	8,562
Investment in subsidiary undertakings	7	**15,441**	15,441
Total assets		**22,287**	24,621
LIABILITIES			
Amounts owed to group companies	10	**5,486**	8,003
Current tax liability		**49**	69
Total liabilities		**5,535**	8,072
EQUITY			
Retained profits		**16,752**	16,549
Total equity		**16,752**	16,549
Total equity and liabilities		**22,287**	24,621

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:

Ajey Agarwal
Director
13 June 2018

Statement of changes in equity

For the year ended 31 December 2017

	Share capital £'000	Retained profits £'000	Total equity £'000
At 1 January 2016	-	15,655	15,655
Profit for the year being total comprehensive income attributable to:			
- Owners of the parent	-	894	894
At 31 December 2016	-	**16,549**	**16,549**
At 1 January 2017		**16,549**	**16,549**
Profit for the year being total comprehensive income attributable to:			
- Owners of the parent	-	203	203
At 31 December 2017	-	**16,752**	**16,752**

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

Cash flow statement

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows generated from operating activities		
Profit before taxation	**252**	963
Adjustments for:		
- Net decrease in Loans and advances to customers	**1,716**	3,105
- Net decrease/(increase) in Other current assets	**618**	(618)
Cash generated from operations	**2,586**	3,450
Corporation tax paid	**(69)**	(88)
Net cash generated from operating activities	**2,517**	3,362
Cash flows used in financing activities		
Proceeds from/(repayment of) borrowings with parent undertakings	**(2,517)**	(3,362)
Net cash used in financing activities	**(2,517)**	(3,362)
Change in Cash and cash equivalents		
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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 2017

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 International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee (IFRS IC) and its predecessor body.

The financial information has been prepared under the historical cost convention. As stated on page 2, the director consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

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

(i) Amendments to IAS7: Disclosure initiative (issued January 2016). The amendments are intended to clarify IAS7 'Statement of Cash Flows' to improve information provided to users of financial statements about an entity's financing activities.

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2017 and which have not been applied in preparing these financial statements are given in note 13.

1.2 Investments in subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights although in certain circumstances a holding of less than one half of the voting rights may still result in the ability of the Group to exercise control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are recorded at cost with provision made for any subsequent reduction in value.

The Company has taken advantage of the exemption in sections 398 of the Companies Act 2006 from the requirement to prepare consolidated financial statements, on the grounds that it is a small sized group.

1.3 Income recognition

Interest income is recognised in the income statement for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit and loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability, including early redemption fees, and related penalties and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account.

Fees and commissions which are not an integral part of the effective interest rate are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn. Where it is unlikely that loan commitments will be drawn, loan commitment fees are recognised over the life of the facility.

1.4 Dividends

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

1.5 Financial assets and liabilities

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all the risks and rewards, but has transferred control.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation is discharged), cancelled or expire.

Notes to the financial statements (continued)
For the year ended 31 December 2017

1. Accounting policies (continued)

1.5 Financial assets and liabilities (continued)

Loans and receivables

Loans and receivables include loans and advances to customers. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest method less provision for impairment.

Borrowings

Borrowings, including amounts owed to group companies, are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest method.
Amounts owed to group companies are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. These amounts are subsequently stated at amortised cost using the effective interest method.

1.6 Impairment of financial assets

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition of the financial asset and prior to the balance sheet date, there is objective evidence that a financial asset or group of financial assets has become impaired.

Where such an event, including the identification of fraud, has had an impact on the estimated future cash flows of the financial asset or group of financial assets, an impairment allowance is recognised. The amount of impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If the asset has a variable rate of interest, the discount rate used for measuring the impairment allowance is the current effective interest rate.

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, interest income continues to be recognised on an effective interest rate basis, on the asset's carrying value net of impairment provisions. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the allowance is adjusted and the amount of the reversal is recognised in the income statement.

Impairment allowances are assessed individually for financial assets that are individually significant. Impairment allowances for portfolios of smaller balance homogenous loans such as most residential mortgages, are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the balance sheet date, are determined on a collective basis.

In certain circumstances, the company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. Where the renegotiated payments of interest and principal will not recover the original carrying value of the asset, the asset continues to be reported as past due and is considered impaired. Where the renegotiated payments of interest and principal will recover the original carrying value of the asset, the loan is no longer reported as past due or impaired provided that payments are made in accordance with the revised terms. Renegotiation may lead to the loan and associated provision being derecognised and a new loan being recognised initially at fair value.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. For secured mortgage balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that forbearance is no longer appropriate.

Notes to the financial statements (continued)
For the year ended 31 December 2017

1. Accounting policies (continued)

1.7 Taxation

Tax expense comprises current tax. Current tax is charged or credited in the income statement 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 income statement (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 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.

1.8 Provisions and contingent liabilities

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

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

1.9 Critical accounting estimates.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant estimate made by management in applying the Company's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Company's results and financial position, is as follows:

- Allowance for impairment losses on loans and receivables (note 1.6)

Impairment

At 31 December 2017, the Company carried a provision of £70k (2016:£70k) in respect to future impairment losses on the current loans and advances.

Determining the amount of provision requires judgement around the probability of default, expected recovery amount and wider long term economic trends. Consequently the continued appropriateness of the underlying assumptions are reviewed on a regular basis against actual experience and adjustments are made to the provisions where appropriate.

Notes to the financial statements (continued)
For the year ended 31 December 2017

2. Operating expenses

	2017 £'000	2016 £'000
Management fees (see note 10)	**32**	32
Other administrative expenses	**6**	4
	38	36

The Company does not have any employees (2016: nil). A recharge is made by the immediate parent company to cover the costs of administration and other services provided to the Company. The auditors' fee of £6k (2016: £6k) was borne by the parent company.

No remuneration was paid or is payable by the Company to the Director (2016: £nil). The Director, who is considered to be the key management personnel of the Company, is employed by other companies in Lloyds Banking Group plc and considers that his services to the Company are incidental to his other activities within the Group.

3. Taxation

a) Analysis of charge for the year	2017 £'000	2016 £'000
UK corporation tax:		
- Current tax on taxable profit for the year	**49**	69
Current tax charge	**49**	69
Tax charge	**49**	69

Corporation tax is calculated at a rate of 19.25% (2016: 20.00%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

Where taxation on the Company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 19.25% (2016: 20.00%), the differences are explained below:

	2017 £'000	2016 £'000
Profit before tax	**252**	963
Tax charge thereon at UK corporation tax rate of 19.25% (2016: 20.00%)	**49**	193
Factors affecting charge:		
- Non-allowable and non-taxable items	**-**	(124)
Tax charge on profit on ordinary activities	**49**	69
Effective rate	**19.25%**	7.2%

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

Finance Act 2016 further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

Notes to the financial statements (continued)
For the year ended 31 December 2017

4. Amounts owed by group companies

	2017 £'000	2016 £'000
Amounts owed by group companies (see note 10)	-	618
	-	618

HL Group (Holdings) Limited, a subsidiary of the Company, was liquidated post-year end. As part of the liquidation process, the net assets of the subsidiary were reduced to £2 and an in specie dividend of £618k was paid up to the Company.

5. Loans and advances to customers

	2017 £'000	2016 £'000
Gross loans and advances to customers	**6,916**	8,632
Less: impairment provision	**(70)**	(70)
Net loans and advances to customers	**6,846**	8,562
of which:		
Due within one year	**804**	789
Due after one year	**6,042**	7,773
Carrying value of net loans and advances to customers at 31 December	**6,846**	8,562

All loans and advances are categorised as loans and receivables and measured at amortised cost. The fair value of loans and advances to customers is not deemed to be materially different to their carrying value (note 11).

Loans and advances to customers are generally at standard variable rates and have a contracted period of 25 years from the initial advance of the loan.

6. Amounts owed to group companies

	2017 £'000	2016 £'000
Amounts owed to parent (see note 10)	**5,486**	8,003

There are no fixed terms for repayment of the loans to and from the parent company. Interest expense has not been recognised on intercompany liabilities, as the balances no longer attract an interest expense charge because charging processes from the parent company changed during 2014.

Notes to the financial statements (continued)

For the year ended 31 December 2017

7. Investment in subsidiary undertakings

	2017 Total £'000	2016 Total £'000
Cost		
Investment in subsidiary undertaking at cost	**40,483**	40,483
Cost at 31 December	**40,483**	40,483
Provision for impairment		
Provision brought forward	**(25,042)**	(25,042)
Provision at 31 December	**(25,042)**	(25,042)
Carrying value of investments at 31 December	**15,441**	15,441

8. Directly held subsidiaries

The following subsidiary companies are incorporated and resident in the United Kingdom and have the same accounting reference dates as the Company:

Directly held subsidiaries	Shares held	Share class	Interest %	Nature of business
Halifax Mortgage Services (Holdings) Limited	1	Ordinary	100	Holding Company
HL Group (Holdings) Limited	2	Ordinary	100	Holding Company

HL Group (Holdings) Limited was placed into liquidation during 2016 and was dissolved in 2018.

At 31 December 2017 the total net asset value of subsidiary companies was £15,441k (2016: £15,441k).

The director considers the carrying value of the investments to be supported by their underlying assets.

The registered address of Halifax Mortgage Services (Holdings) Limited is Trinity Road, Halifax, West Yorkshire, HX1 2RG.

The registered address of HL Group (Holdings) Limited is 1 Moore London Place, London SE1 2AF.

9. Share capital

	2017 £'000	2016 £'000
Allotted, issued and fully paid		
1 (2016: 1) ordinary share of £1	-	-

Ordinary shares carry one vote each. Share capital reduced to £1 in 2015.

10. Related party transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity. The Company's key management personnel is its director, who considers that his duties in respect of the Company are incidental to his Group responsibilities. No director entered into transactions with the Company in the year.

As disclosed below, a management recharge is made by the immediate parent company to cover costs of administration and other services provided to the Company of £32k (2016: £32k). The auditors' remuneration of £6k (2016: £6k) was borne by the parent company.

Notes to the financial statements (continued)

For the year ended 31 December 2017

10. Related party transactions (continued)

Banking transactions are entered into by the Company with the Lloyds Banking Group plc and its subsidiaries in the normal course of business and are at normal commercial terms.

A summary of the outstanding balances at the year end and the related income and expense for the year is set out below.

	2017 £'000	2016 £'000
Amounts owed to group companies		
Amounts owed to parent	**(5,486)**	(8,003)
Amounts owed by group companies		
Amounts owed by subsidiary	**-**	618

11. Financial risk management

The Company's financial instruments principally comprise loans and advances to customers and inter-company balances.

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board, operating within a management framework established by the ultimate parent, Lloyds Banking Group plc.

11.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company's credit risk exposure arises in the UK.

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the carrying amount reflected in the statement of financial position.

Loans and advances to customers – maximum exposure

	2017 £'000	2016 £'000
Neither past due nor impaired	**5,872**	7,485
Past due but not impaired	**516**	706
Impaired	**528**	441
Maximum exposure – Loans and advances to customers	**6,916**	8,632

All loans and advances to customers are secured on UK residential property. No properties were in possession as at 31 December 2017 (31 December 2016: nil).

Amounts owed from group companies – maximum exposure

The maximum exposure to credit risk arising on amounts due from group companies is £0. (2016: £618k).

Loans and advances to customers which are neither past due nor impaired

	2017 £'000	2016 £'000
Good quality	**5,872**	7,485
Total	**5,872**	7,485

Notes to the financial statements (continued)

For the year ended 31 December 2017

11. Financial risk management (continued)

11.1 Credit risk (continued)

Classifications of lending incorporate expected recovery levels for mortgages, as well as probabilities of default assessed using internal rating models. In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default. HLL lending defined as good quality due to book profile having a loan to value of less than 70.00%.

Loans and advances to customers which are past due but not impaired

	2017 £'000	2016 £'000
Past due up to 30 days	**115**	212
Past due from 30-60 days	**228**	214
Past due from 60-180 days	**173**	280
Total	**516**	706

A financial asset is 'past due' if a customer has failed to make a payment when contractually due.

Loans and advances to customers which are impaired

Loans and advances are deemed to be impaired if they are in arrears by 180 days or more. Loans and advances to customers of £528k (2016: £441k) are all in arrears by over 180 days. No amounts to Group companies are impaired (2016: £nil).

Loans and advances to customers by loan to value

	2017 £'000	2016 £'000
Less than 70.00%	**6,916**	8,632
Total	**6,916**	8,632

Collateral and other credit enhancements held

Collateral held against mortgage lending comprises of residential properties. Their fair value has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices, after making allowance for indexation error and dilapidations. The resulting valuation has been limited to the principal amount of the outstanding advance in order to provide a clearer representation of the Company's credit exposure.

A description and the estimated fair value of collateral held in respect of residential mortgage loans that are past due or individually assessed as impaired was as follows:

Fair Value	2017 £'000	2016 £'000
Residential property	**1,044**	1,147

Repossessed collateral

No properties have been repossessed during the year (2016: nil).

The Company does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

Notes to the financial statements (continued)
For the year ended 31 December 2017

11. Financial risk management (continued)

11.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. The Company is deemed to have low exposure to the risk of being unable to meet its financial obligations as they fall due or only being able to do so at an unacceptably high cost. This is because the Company is funded by companies within Lloyds Banking Group plc and, as a result, liquidity risk is managed within the Group. There are no fixed terms for repayment of loans to and from group companies.

11.3 Interest rate risk

The director regards the primary market risk faced by the Company to be adverse movements in interest rates impacting upon interest receivable on Loans and Advances to customers and therefore interest rate margins. Interest rate risk exists where the Company's financial assets and liabilities have interest rates set under different bases or are reset at different times.

The risk is managed using an earnings at risk methodology.

A sensitivity analysis has been performed to assess the impact of interest rates being 150 basis points (bps) higher or lower with all other variables held constant. The net effect on the Company's Statement of Comprehensive Income would be as shown in the table below:

	-150bps £'000	Interest receivable £'000	+150 bps £'000
2017	179	283	387
2016	253	378	503

In respect of income-earning financial assets, the following table indicates the periods in which they contractually mature:

2017	Less than 1 year £'000	Between 1-2 years £'000	Between 2-5 years £'000	5 years or more £'000	**Total £'000**
Loans and advances to customers	804	683	2,845	2,584	**6,916**

2016	Less than 1 year £'000	Between 1-2 years £'000	Between 2-5 years £'000	5 years or more £'000	**Total £'000**
Loans and advances to customers	789	754	3,581	3,508	**8,632**

Mortgage loans are typically at fixed or discounted variable interest rates for an initial period and then revert to the Company's standard variable rate for the remainder of the contractual term, usually around 25 years. Early repayment charges apply to certain products, depending upon the length of time the product has been held. Mortgage loans are secured against the property.

11.4 Fair values of financial assets and liabilities

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

In 2017, the carrying amount of loans and advances to customers is £6,846k (2016: £8,562k). The carrying amount of loans and advances to customers and amounts owed to the parent company represent a reasonable approximation of fair value.

11.5 Financial assets and liabilities available for offsetting

Within the loans and advances and amounts owed to group companies in note 10, all current asset and current liability amounts are shown gross. Amounts available for offsetting in accordance with IAS32 are offset within these financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2017

11. Financial risk management (continued)

11.6 Capital disclosures

The managed capital of the Company constitutes total equity. This consists entirely of issued ordinary share capital and retained profit.

The Company's immediate parent, Bank of Scotland plc, is authorised and regulated by the Financial Conduct Authority ("FCA") and is subject to the FCA's capital resource requirements as set out by the FCA. Capital is actively managed at an appropriate level of frequency and regulatory capital levels are a key factor in the Company's budgeting and planning processes.

All FCA capital requirements imposed on Bank of Scotland plc during the year, were met.

On an annual basis it is assessed whether:

- equity held is sufficient to cover amounts owed to parent company and any liquidation risk associated with the loans and advances to customers;
- equity has exceeded capital requirements of the year; and
- the Group will continue to support the company in the event of a loss.

12. Contingent liabilities

12.1 Contingent tax liability

The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs ('HMRC') adopt a different interpretation and application of tax law which might lead to additional tax.

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £338K (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

12.2 Contingent liabilities

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant Statement of financial position date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters.

13. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at 12th June 2018 these pronouncements have been endorsed by the European Union.

Notes to the financial statements (continued)
For the year ended 31 December 2017

13. Future accounting developments (continued)

Pronouncement	Nature of change
IFRS 9 'Financial Instruments'	IFRS9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The Company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods. *Classification and Measurement* IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. The re-classification and measurement of assets under IFRS 9 will have no material impact on the Company. *Impairment* IFRS 9 replaces the existing 'incurred loss' impaired approach with an expected credit loss ('ECL') model resulting in an earlier recognition of credit losses compared to IAS 39. The ECL has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that the asset is credit impaired, which is similar to the guidance on incurred losses in IAS 39. It is estimated that IFRS9 will not materially impact the provision's on the Company's statement of financial position.
IFRS 15 'Revenue from Contracts with Customers'	IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and is effective for annual periods beginning on or after 1 January 2018. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. The recognition of such revenue is in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied. The Company's current accounting policy is materially consistent with the requirements of IFRS and, accordingly, no transition adjustments are required.
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2018 (including IFRS2 Share-based Payment and IAS 40 Investment Property) and effective 1 January 2019 (including IAS12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). These revised requirements are not expected to have a significant impact on the Company.

14. Ultimate parent undertaking and controlling party

The Company's immediate parent company is Bank of Scotland plc. The company regarded by the Director as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which Group financial statements are drawn up and of which the Company is a member. Bank of Scotland plc is the parent undertaking of the smallest such group of undertakings. Copies of the Group financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.