

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1997



**HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

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HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

CHAIRMAN

J R Crosby

MANAGING DIRECTOR

B Abram

OTHER DIRECTORS

W A Beadle

P M Martin

A Selman

SECRETARY

S N Waite

REGISTERED OFFICE

Trinity Road

HALIFAX

HX1 2RG

PRINCIPAL PLACE OF BUSINESS

Permanent House

1 Lovell Park Road

LEEDS

LS1 1NS

AUDITORS

KPMG Audit Plc

1 The Embankment

Neville Street

LEEDS

LS1 4DW

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 1997.

PRINCIPAL ACTIVITY

During the year the company was primarily engaged in business as an independent intermediary for insurance and investment business.

On 1 January 1997, the whole of the company's issued share capital was transferred from Halifax Building Society (now Halifax plc) to HCM Holdings Limited, itself a wholly owned subsidiary of Halifax plc.

Following the conversion of Halifax Building Society to a public limited company on 2 June 1997, ultimate ownership of the company was transferred from Halifax Building Society to Halifax plc.

BUSINESS REVIEW

The company has increased its activities in the insurance and investment market during the year. This is reflected in an increase of some 25% in commission and fees receivable over the annual equivalent achieved in 1996.

RESULTS AND DIVIDEND

The results for the period are shown in the profit and loss account on page 8. The directors do not recommend the payment of a dividend.

FUTURE DEVELOPMENTS

The company will continue to increase its activities in the insurance and investment market through the development of relationships with external introducers and other parts of the Group.

SUPPLIER PAYMENT POLICY

The company's suppliers are paid through the centralised invoice processing facilities operated by Halifax plc, the ultimate parent undertaking.

For the forthcoming financial year, the company's policy with regards to the payment of its suppliers will be as follows:

- . payment terms will be agreed at the start of the relationship with the supplier;
- . any changes in terms will be fully discussed and agreed with the supplier;
- . standard payment terms to suppliers of goods and services will be the end of the month following the month of the invoice date, subject to the quality of goods and services and the accuracy of billing;

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
DIRECTORS' REPORT (CONT'D)

SUPPLIER PAYMENT POLICY (CONT'D)

- non-standard payment terms will apply where an alternative contract of agreement exists, whereby Halifax Financial Services (Holdings) Limited agrees to meet all payments under that arrangement, subject to a satisfactory invoice or statement being received.

At 31 December 1997 40 days billings from suppliers were outstanding.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year were as follows:-

J R Crosby
 B Abram
 W A Beadle
 P M Martin
 A Selman

During the year no director had any interest in the share capital of the company or of any group undertaking other than the ultimate holding company, Halifax plc, and no rights to subscribe for such interests were granted.

The interests of the directors in the shares of Halifax plc were as follows :

| | At 31 December 1997 | At 1 January 1997 |
|------------|--------------------------------|------------------------------|
| B Abram | 600 | - |
| P M Martin | 600 | - |
| A Selman | 959 | - |

The following directors hold options in the shares of Halifax plc under the terms of the Halifax plc Employee Share Trust 1997:

| | Number of Options | | | |
|------------|--------------------------|----------------------------|------------------------------|-------------------------|
| | At 1 Jan 97 | Granted in Year | Exercised in Year | At 31 Dec 97 |
| B Abram | - | 1,784 | - | 1,784 |
| P M Martin | - | 2,974 | - | 2,974 |
| A Selman | - | 1,344 | - | 1,344 |

The exercisable price per share is £5.80. The market value per share at 31 December was £7.64.

Mr W A Beadle is also a director of the company's immediate parent undertaking, HCM Holdings Limited, and his interests in the shares of Halifax plc and his options to subscribe for those shares are therefore disclosed in the financial statements of HCM Holdings Limited.

**HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
DIRECTORS' REPORT (CONT'D)**

DIRECTORS AND DIRECTORS' INTERESTS (CONT'D)

Mr J R Crosby is also a director of Halifax plc and his interests in the shares of that company and his options to subscribe for those shares are therefore disclosed in that company's financial statements.

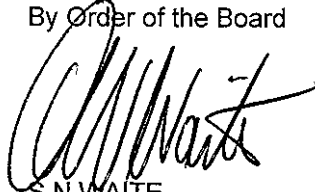
REGULATION

The company is regulated in respect of its investment business under the Financial Services Act 1996 by the Personal Investment Authority.

AUDITORS AND ANNUAL GENERAL MEETING

Pursuant to a resolution passed by the members, the company has elected to dispense with the holding of Annual General Meetings, of laying financial statements and reports before the company in General Meeting, and with the obligation to reappoint auditors annually.

By Order of the Board



S N WAITE
SECRETARY

Trinity Road
HALIFAX
HX1 2RG

10 February 1998

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements the directors are required to:

- . select suitable accounting policies and then apply them consistently;
- . make judgements and estimates that are reasonable and prudent;
- . state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- . prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**REPORT OF THE AUDITORS
TO THE MEMBERS OF HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED**

We have audited the accounts on pages 8 to 13.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND THE AUDITORS

As described on page 6 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

10 February 1998

1 The Embankment
Neville Street
LEEDS
LS1 4DW

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997

| Continuing Operations | | | |
|--|-------------|---|--|
| | Note | Year ended 31 December 1997 £000 | 11 months ended 31 December 1996 £000 |
| TURNOVER | 1, 2 | 13,928 | 10,266 |
| Operating costs | | (11,347) | (8,486) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST | | <hr/> 2,581 | <hr/> 1,780 |
| INTEREST RECEIVABLE AND SIMILAR INCOME | 3 | 124 | - |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 4 | <hr/> 2,705 | <hr/> 1,780 |
| Tax on profit on ordinary activities | 6 | (868) | (606) |
| PROFIT FOR THE FINANCIAL YEAR | 7, 13 | <hr/> <hr/> 1,837 | <hr/> <hr/> 1,174 |

A statement of the movement on reserves is shown in Note 7 to the accounts on page 12.

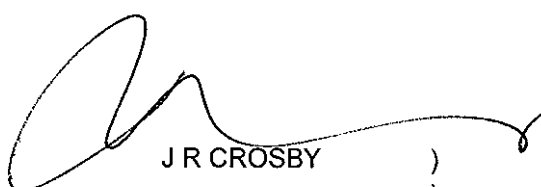
The company had no recognised gains or losses in either period other than the profit for the financial period shown above.

The notes on pages 10 to 13 form part of these financial statements.

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
BALANCE SHEET AS AT 31 DECEMBER 1997

| | Note | 1997 £000 | 1996 £000 |
|---|------|--------------|--------------|
| CURRENT ASSETS | | | |
| Debtors | 8 | 8,910 | 5,535 |
| CREDITORS: amounts falling due within one year | 9 | (3,655) | (2,260) |
| NET CURRENT ASSETS | | 5,255 | 3,275 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 10 | (720) | (577) |
| NET ASSETS | | 4,535 | 2,698 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 11 | 200 | 200 |
| Profit and loss account | 7 | 4,335 | 2,498 |
| EQUITY SHAREHOLDERS' FUNDS | 13 | 4,535 | 2,698 |

These financial statements were approved by the Board of Directors on 10 February 1998
and signed on its behalf by:


J R CROSBY

)
)
)
) DIRECTORS
)
)



W A BEADLE

)
)
)

The notes on pages 10 to 13 form part of these financial statements.

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1997

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention.

1.2 TURNOVER

Turnover comprises commission and fees earned in respect of insurance and investment business and is stated net of commissions and fees paid for introduction of business. Provision is made for the future clawback of commission received under indemnity terms, and is based on guidance set out in the SIB rules.

1.3 CASH FLOW STATEMENT

Under FRS1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking, and the consolidated financial statements of Halifax plc, in which the financial statements of the company are included are publicly available.

2 TURNOVER

Turnover is derived entirely from UK sources and comprises the following:-

| | Year ended 31 December 1997 £000 | 11 months ended 31 December 1996 £000 |
|--|--|---|
| Commission and fees receivable | 14,296 | 10,491 |
| Provision for future clawback of indemnity commission (note 10) | (526) | (389) |
| Release of overprovision for previous years' sales (note 10) | 158 | 164 |
| | <u>13,928</u> | <u>10,266</u> |

3 INTEREST RECEIVABLE AND SIMILAR INCOME

| | Year ended 31 December 1997 £000 | 11 months ended 31 December 1996 £000 |
|---|--|---|
| Interest receivable on delayed commission payments | <u>124</u> | <u>-</u> |

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1997 (CONT'D)

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | Year ended 31 December 1997 £000 | 11 months ended 31 December 1996 £000 |
|--|--|---|
| Profit on ordinary activities before taxation is stated after charging: | | |
| Remuneration of auditors and their associates - for audit work | 11 | 11 |

5 STAFF NUMBERS AND COSTS

The company employed no permanent staff directly during either of the financial periods. A recharge is made by the ultimate parent undertaking to cover the costs of staff engaged in the activities of the company.

The emoluments of the directors were as follows:

| | Year ended 31 December 1997 £'000 | 11 months ended 31 December 1996 £'000 |
|--|---|--|
| Directors' emoluments | 88 | 63 |
| Company contributions to money purchase schemes | - | 1 |

Directors' emoluments include the cash value of bonuses paid in the year as the level of bonuses requires Group approval which will not be received until after the approval of the subsidiary undertakings' financial statements.

Retirement benefits are accruing to the following number of directors under:

| | Number of directors Year ended 31 December 1997 | 11 months ended 31 December 1996 |
|------------------------|---|-------------------------------------|
| Money purchase schemes | 1 | 1 |

Details of directors' share options are shown in the Directors' Report on page 4.

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

| | Year ended 31 December 1997 £'000 | 11 months ended 31 December 1996 £'000 |
|---|---|--|
| The charge for the year, based on a corporation tax rate of 31.5% (11 months ended 31 December 1996 - 33%) comprises: | | |
| Corporation tax | 868 | 606 |

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1997 (CONT'D)

7 RESERVES

| | 1997 £000 | 1996 £000 |
|-------------------------------|----------------------------|----------------------------|
| PROFIT AND LOSS ACCOUNT | | |
| At 1 January 1997 | 2,498 | 1,324 |
| Profit for the financial year | 1,837 | 1,174 |
| At 31 December 1997 | <u>4,335</u> | <u>2,498</u> |

8 DEBTORS

| | 1997 £'000 | 1996 £'000 |
|---|-----------------------------|-----------------------------|
| Amounts owed by parent and fellow subsidiary undertakings | 8,725 | 5,414 |
| Prepayments and accrued income | 185 | 121 |
| | <u>8,910</u> | <u>5,535</u> |

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1997 £'000 | 1996 £'000 |
|---|-----------------------------|-----------------------------|
| Amounts owed to parent and fellow subsidiary undertakings | 2,479 | 1,385 |
| Corporation tax payable | 839 | 606 |
| Other creditors | 337 | 269 |
| | <u>3,655</u> | <u>2,260</u> |

10 PROVISIONS FOR LIABILITIES AND CHARGES

| | 1997 £000 | 1996 £000 |
|---|----------------------------|----------------------------|
| CLAWBACK PROVISION | | |
| At 1 January 1997 | 577 | 567 |
| Profit and loss account | | |
| Charge for current years sales | 526 | 389 |
| Release of overprovision for previous years | (158) | (164) |
| Utilised in year | (225) | (215) |
| At 31 December 1997 | <u>720</u> | <u>577</u> |

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1997 (CONT'D)

11 CALLED UP SHARE CAPITAL

| | 1997 £000 | 1996 £000 |
|---|----------------------------|----------------------------|
| Authorised 1,000,000 ordinary shares of £1 each | 1,000 | 1,000 |
| | <hr/> | <hr/> |
| Allotted, called up, and fully paid 200,000 ordinary shares of £1 each | 200 | 200 |
| | <hr/> | <hr/> |

12 CONTINGENT LIABILITIES

Following a review of pension transfer advice given by a sample of companies regulated under the Financial Services Act 1986 by the Securities and Investments Board (SIB) in 1994, the company has undertaken to review its own pension transfer business. An amount has been provided in the financial statements of Halifax plc representing the company's best estimate of the probable liability for the group.

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 1997 £'000 | 1996 £'000 |
|-------------------------------|-----------------------------|-----------------------------|
| Profit for the financial year | 1,837 | 1,174 |
| Opening shareholders' funds | 2,698 | 1,524 |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 4,535 | 2,698 |
| | <hr/> | <hr/> |

14 TRANSACTIONS WITH RELATED PARTIES

Halifax Independent Financial Advisers Limited, as a wholly owned subsidiary undertaking of Halifax plc, has taken advantage in the preparation of its financial statements of an exemption contained in FRS 8, "Related Party Disclosures". This exemption allows the company not to disclose details of transactions with other group companies or investees of the group qualifying as related parties as the consolidated financial statements in which Halifax Independent Financial Advisers Limited is included are publicly available.

15 ULTIMATE PARENT UNDERTAKING

The company is a wholly owned subsidiary undertaking of Halifax plc, which is registered in England and operates in the United Kingdom. Copies of the financial statements of Halifax plc can be obtained from Trinity Road, Halifax, West Yorkshire, HX1 2RG, which is its principal place of business.