2367078

HALIFAX INDEPENDENT FINANCIAL ADVISERS LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2009

Member of Lloyds Banking Group plc

CONTENTS

COMPANY INFORMATION

Board of Directors

N G Frankland
J Warburton

Secretary

K J Mckay

Auditors

PricewaterhouseCoopers LLP
31 Great George Street
Bristol
BS1 5QD

Registered Office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Company Number

2367078

DIRECTORS' REPORT

Principal activities and review of the business

The Directors present the financial statements of Halifax Independent Financial Advisers Limited (the "Company"), a limited liability company domiciled in the United Kingdom The principal activity of the company is to act as an Independent Financial Adviser The Company closed to new business in September 2000, but it continues to generate renewal commission as a result of its existing book of business The Company is a wholly owned subsidiary of Halifax Financial Services (Holdings) Limited

In February 2002 the Company began selling annuity products under the trading name of the Bank of Scotland Annuity Service (BOSAS) It generates initial commission on sales

BOSAS generates new business mainly through the Bank of Scotland Investment Service and St James' Place, fellow group entities which focus on high net worth individuals

Results and dividend

The result of the Company for the year ended 31 December 2009 is a profit after taxation of £2 6m (2008 profit of £3 3m), and this has been transferred to reserves The Directors consider this result to be satisfactory in light of the activities of the Company

No interim dividends were paid in the year (2008 £nil) The directors do not recommend the payment of a final dividend (2008 £2 8m)

Key performance indicators

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future Further information on the capital position of the Company is given in note 14

The Company's turnover for the year ended 31 December 2009 is £6 1m (2008 £6 6m)

Existing business continues to generate gross renewal commission, this amounted to £2 2m for the year (2008 £3 0m)

The Directors are of the opinion that the information presented in the financial statements provides the management information necessary for the Directors to understand the development, performance and position of the business of the Company The Company forms part of the Insurance Division of Lloyds Banking Group plc ("Group") The development, performance and position of this Division are discussed in the Group's annual report, which does not form part of this report

Future outlook

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

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks The financial risk management objectives and policies of the Company and the exposure to credit, market and financial soundness risk are set out in note 14

Directors

The names of the current Directors are listed on page 3 Changes in directorships during the year and since the end of the year are as follows

N G Frankland	(appointed 17 July 2009)
J Warburton	(appointed 15 July 2009)
A Harrison	(resigned 15 July 2009)
R J H Milne	(resigned 15 July 2009)

Particulars of the Directors' emoluments are set out in note 15

Disclosure of information to auditors

Each Director confirms that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware Relevant information is defined as "information needed by the Company's auditors in connection with preparing their report"

DIRECTORS' REPORT (CONTINUED)

Each Director has taken steps that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

Change of auditors

Following the resignation of KPMG on 9 April 2009, PricewaterhouseCoopers LLP were appointed as auditors of the Company with effect from the same date by the directors of the Company on 9 April 2009 Accordingly, a resolution proposing the reappointment of PricewaterhouseCoopers LLP as auditors will be put to the members of the Company before the end of the next period for appointing auditors (as defined by the Companies Act 2006)

Policy and practice on payment of creditors

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, No1 Victoria Street, London, SW1H 0ET

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 It is the policy of the Company to abide by agreed terms of payment, provided the supplier performs according to the terms of contract

The processing of invoices from suppliers and settlement of trade creditors is undertaken by a separate company within the Lloyds Banking Group The number of days shown in this report, to comply with the provisions of the Companies Act 2006, is 20 days (2008 19 days)

On behalf of the Board of Directors

K J McKay
Edinburgh

15 March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

We have audited the financial statements of Halifax Independent Financial Advisers Limited for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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

Clare Thompson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
15 March 2010

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £ 000	2008 £ 000
Revenue	2	6,086	6,633
Operating costs	3	(2,447)	(2,150)
Operating profit		3,639	4,483
Interest receivable	5	22	108
Profit before tax		3,661	4,591
Taxation charge	6	(1,025)	(1,309)
Profit for the year		2,636	3,282

There are no items of comprehensive income which have not already been presented in arriving at the profit for the year Accordingly, the profit for the year is the same as total comprehensive income for the year

The notes set out on pages 12 to 26 are an integral part of these financial statements

BALANCE SHEET AS AT 31 DECEMBER 2009

	Note	2009 £ 000	2008 £ 000
ASSETS			
Current assets			
Financial assets			
Trade and other receivables	7	1,258	416
Cash and cash equivalents	8	4,725	3,095
Total assets		5,983	3,511
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's equity shareholder			
Share capital	9	200	200
Retained earnings		4,129	1,493
Total equity		4,329	1,693
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities and charges	10	312	200
Current liabilities			
Current tax payable	11	1,025	1,309
Financial liabilities			
Trade and other payables	12	317	309
Total liabilities		1,654	1,818
Total liabilities and shareholder's equity		5,983	3,511

Approved on behalf of the Board on 15 March 2010

J Warburton
Director

The notes set out on pages 12 to 26 are an integral part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £ 000	2008 £ 000
Cash flows from operating activities			
Profit before tax		3,661	4,591
Adjustments for			
Interest income		(22)	(108)
Net (increase)/decrease in operating assets and liabilities	13	(722)	165
Taxation paid		(1,309)	(958)
Net cash flows from operating activities		1,608	3,690
Cash flows from investing activities			
Interest received		22	108
Net cash flows from investing activities		22	108
Cash flows from financing activities			
Equity dividends paid		-	(2,800)
Net cash used in financing activities		-	(2,800)
Net increase in cash and cash equivalents		1,630	998
Cash and cash equivalents at the beginning of the year		3,095	2,097
Net cash and cash equivalents at the end of the year	8	4,725	3,095

The notes set out on pages 12 to 26 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
Balance as at 1 January 2008		200	1,011	1,211
Total comprehensive profit for the year		-	3,282	3,282
Dividends paid	9	-	(2,800)	(2,800)
Balance as at 31 December 2008		200	1,493	1,693
Total comprehensive profit for the year		-	2,636	2,636
Balance as at 31 December 2009		200	4,129	4,329

The notes set out on pages 12 to 26 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Accounting policies

Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results

The financial statements comprise the statement of comprehensive income, the balance sheet, the statement of cash flows and the statement of changes in equity The preparation of financial statements necessitates the use of estimates and assumptions in applying the accounting policies set out on pages 12 to 15 The accounting policies which relate to impairment (policy i) and provisions for other liabilities and charges (policy j) are those which involve the most complex or subjective decisions or assessments These estimates and assumptions affect the reported amount of assets and liabilities, contingent or otherwise, at the reporting date as well as affecting the reported income and expenses for the year

In each case, the determination of these is fundamental to the financial results and position of the Company, and requires management to make complex judgments based on information and financial data that may change in future periods Although the estimates are based on management's best knowledge of current facts as at the reporting date, the actual outcome may differ from those estimates

The significant accounting policies adopted in the preparation of the financial statements, which have been consistently applied to all periods presented in these financial statements, are set out below

a) Basis of preparation

The financial statements have been prepared

(1) in accordance with the International Accounting Standards ("IASs") and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and the Standards and Interpretations ("SICs") and International Financial Reporting Interpretations ("IFRICs") issued by its International Financial Reporting Interpretations Committee, as endorsed by the European Union,
(2) in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs, and
(3) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities as set out in the relevant accounting policies

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future Accordingly, the financial statements of the Company have been prepared on a going concern basis

Standards and interpretations effective in 2009

A number of standards, amendments to and interpretations of published standards which have the potential to impact on the Company's operations have been issued and are mandatory for accounting periods beginning on or after 1 January 2009 Their relevance to the Company's operations is assessed at note 16

Details of standards and interpretations in issue but which have not been adopted early are set out at note 17

b) Revenue

Revenue principally 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 Revenue relates entirely to activities within the UK Revenue is recognised on an accruals basis

c) Expense recognition

Operating costs

Operating costs are recognised in the statement of comprehensive income on an accruals basis, within operating costs

Dividends payable

Dividends payable on ordinary shares are recognised in equity in the period in which they are approved

d) Interest receivable

Interest income for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within interest receivable

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

1. Accounting policies (continued)

e) Taxes

Tax on the profit or loss for the year is recognised in the statement of comprehensive income within taxation and comprises current tax

Current tax

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

f) Financial assets and financial liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition and re-evaluates this at every reporting date Management's policies for the recognition of specific financial assets and financial liabilities, as identified on the balance sheet, are set out under the relevant accounting policies

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

All financial assets and financial liabilities are designated at fair value through income, with the exception of certain loans and receivables and other financial liabilities which are stated at amortised cost (as described in policies (h) and (k) below)

No assets are classified as held-to-maturity, available-for-sale or for trading, no liabilities are classified as held for trading

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

g) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market

Trade and other receivables are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment, with the exception of accrued interest, which is accounted for at fair value, reflecting the amounts receivable at the year end In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within loans and receivables

A charge for impairment in respect of loans and receivables would be made in the statement of comprehensive income when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms The impairment charge would be recognised in that part of the statement of comprehensive income in which the original transaction was reported Further information on the Company's impairment policy is set out at policy (i)

h) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, short-term, highly liquid investments with original maturities of three months or less and bank overdrafts

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

1 Accounting policies (continued)

i) Impairment

Financial assets

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

In order to determine whether financial assets are impaired, all financial assets for which the fair value has been significantly below cost price for a considerable period of time are individually reviewed A distinction is made between negative revaluations due to general market fluctuations and due to issuer-specific developments The impairment review focuses on issuer-specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Company's long term investment strategy

Non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the relevant line in the statement of comprehensive income in the period in which it occurs

Impairment process

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

(i) significant financial difficulty of the issuer or debtor,
(ii) a breach of contract,
(iii) the disappearance of an active market for that asset because of financial difficulties, or
(iv) observable data indicating that there is a measurable decrease in the estimated future cashflow from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including

- adverse changes in the payment status of issuers or debtors, or
- national or local economic conditions that correlate with defaults on the assets in the Company

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

The impairment review in respect of the Company is considered at a Lloyds Banking Group plc level and takes into account income streams arising outwith this statutory entity If this was assessed at an entity level for the Company, the impairment charge would be £nil (2008 £nil)

j) Provisions for other liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that the obligation will result in an outflow of resources to settle the obligation and when a reliable estimate of the amount of the obligation can be made If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

1. Accounting policies (continued)

k) Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within other financial liabilities

l) Share capital

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

2. Revenue

	2009 £ 000	2008 £ 000
New business commission	3,722	3,664
Renewal commission	2,364	2,969
Total	6,086	6,633

3 Operating costs

	2009 £ 000	2008 £ 000
Salary and pension costs	1,923	1,707
Movement in provision	417	82
Computer costs	58	54
Write offs	-	194
Internal recharges	-	39
Sales and marketing fees	-	23
Other expenses	49	51
Total	2,447	2,150

The Company had no direct employees during the year (2008 nil) All staff providing services to the Company are employed by other companies within Lloyds Banking Group plc

4 Auditors' remuneration

Audit fees for 2009 were borne by the Parent company and are as follows

Fees payable for the audit of the statutory accounts for the Company for the year ended 31 December 2009 were £8,827 (2008 £5,655)

Fees payable for the audit of Lloyds Banking Group plc reporting returns for the Company for the year ended 31 December 2009 were £13,241 (2008 £nil)

Fees payable for the audit of HBOS plc reporting returns for the Company for the year ended 31 December 2009 were £nil (2008 £8,482)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

5. Interest receivable

	2009 £ 000	2008 £ 000
Bank interest	22	108
Total	22	108

6. Taxation

(a) Current year tax charge

	2009 £ 000	2008 £ 000
Current tax:		
UK corporation tax	1,025	1,309
Adjustment in respect of prior years	-	-
Total current tax	1,025	1,309
Total income tax charge	1,025	1,309

(b) Reconciliation of tax charge

	2009 £ 000	2008 £ 000
Profit before tax	3,661	4,591
Tax at 28% (2008: 28.5%)	1,025	1,309
Total	1,025	1,309

The Finance Act 2007 reduced the rate of corporation tax from 30% to 28% with effect from 1 April 2008 The impact of this reduction in tax rate, which related in a weighted average rate of 28 5% being applied to the profit for the prior year, is reflected in the above table

7. Trade and other receivables

	2009 £ 000	2008 £ 000
Amounts due from group undertakings	1,258	416
Total	1,258	416

None of the above balances are interest-bearing (2008 £nil)

There is no significant concentration of credit risk with respect to trade and other receivables Further information in respect of credit risk is given in note 14

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

8. Cash and cash equivalents

Cash and cash equivalents for use in the statement of cash flows include the following

	2009 £ 000	2008 £ 000
Cash at bank	4,725	3,095
Total	4,725	3,095

9. Called up share capital

	2009 £ 000	2008 £ 000
Authorised		
1,000,000 shares of £1 each	1,000	1,000
Allotted issued and fully paid		
200,000 shares of £1 each	200	200

There were no changes in ordinary share capital during the year

Dividends

The following dividends were proposed and paid during the year

	2009 £ 000	2008 £ 000
No dividends were paid in the year (2008 £14 00 per qualifying ordinary share)	-	2,800

10. Provisions for other liabilities and charges

Mortgage Endowment Provision

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

The changes in provisions and any additions made during the year have been charged to operating expenses in the Income Statement

	2009 £ 000	2008 £ 000
At 1 January	200	362
Provisions made during the year	417	82
Provisions utilised during the year	(305)	(244)
At 31 December	312	200

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

11. Tax liabilities

	2009 £ 000	2008 £ 000
Current tax payables	1,025	1,309
Total tax liabilities	1,025	1,309

12. Trade and other payables

	2009 £ 000	2008 £ 000
Amounts due to group undertakings	60	134
Other payables	257	175
Total	317	309

13. (Increase) / decrease in operating assets and liabilities

	2009 £ 000	2008 £ 000
(Increase) / decrease in operating assets:		
Trade and other receivables	(842)	339
Net (increase) / decrease in operating assets	(842)	339
Increase / (decrease) in operating liabilities:		
Provision for other liabilities and charges	112	(162)
Trade and other payables	8	(12)
Net increase / (decrease) in operating liabilities	120	(174)
Net (increase) / decrease in operating assets and liabilities	(722)	165

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

14 Risk management

The Company is an independent financial adviser in the sale of Life, Pensions, Unit Trust and ISA business This note summarises the risks associated with the activities of the Company and the ways in which these are managed

(a) Governance framework

The Company is part of the Insurance Division of Lloyds Banking Group This Division has established a risk management function with responsibility for implementing the Lloyds Banking Group risk management framework

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

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

Responsibility for the management of risk resides with the Board of the Company, which has delegated its authority to the Life Pensions & Investments Executive Committee

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

(b) Financial risks

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

The market risk that the Group primarily faces due to the nature of its financial assets is interest rate risk

The Company manages these risks in a number of ways, including risk appetite assessment and monitoring of cashflow requirements The Company also uses financial instruments as part of its business activities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost No assets are classified as held for trading, held-to-maturity or as available for sale The summary of significant accounting policies (note 1) describes how the classes of financial instruments are measured, and how income and expenses are recognised

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

14. Risk management (continued)

The following tables analyse the carrying amount of assets and liabilities according to their IAS 39 "Financial Instruments Recognition and Measurement" classification

	2009 £ 000	2008 £ 000
Financial assets		
Cash and cash equivalents	4,725	3,095
At amortised cost		
Trade and other receivables	1,258	416
	5,983	3,511
Total assets	5,983	3,511

	2009 £ 000	2008 £ 000
Financial liabilities		
At fair value through income		
Trade and other payables	317	309
	317	309
Other liabilities		
Current tax payable	1,025	1,309
Provisions for other liabilities and charges	312	200
	1,337	1,509
Total liabilities	1,654	1,818

All of the Company's financial liabilities are considered to be payable in less than 1 month

The sensitivity analysis given in this note in respect of interest rate risk is based on a change in an assumption while holding all other assumptions constant In practice, this is unlikely to occur as changes in an assumption may be correlated The sensitivity analysis presented represents a reasonably possible change in a single factor

(1) Credit risk

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

Credit risk is managed in line with the Lloyds Banking Group Credit Risk Policy

Investments are allowed only in liquid securities and only with counterparties that have a suitable credit rating Given their credit ratings, management does not expect any counterparty to fail to meet its obligations

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

There were no past due or impaired financial assets at 31 December 2009 (2008 none) No terms in respect of financial assets had been renegotiated at 31 December 2009 or 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

14. Risk management (continued)

(2) Market risk

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

Interest rate risk is the risk that the value of future cashflows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve Interest rate risk arises in respect of cash balances which are either held on deposit or invested in a cash fund and also in respect of any overdrawn bank balances

If interest rates were to increase or decrease by 25 basis points, the impact on profit and loss after tax is considered to be immaterial in respect of interest-bearing financial assets and financial liabilities

None of the other financial assets or financial liabilities of the Company are interest-bearing The Company is not exposed to equity, property or foreign exchange risk through its financial assets and financial liabilities

(3) Financial soundness risk

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

(i) Financial, tax and disclosure risk

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

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

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

(ii) Liquidity risk

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

All of the financial assets of the Company, as identified on page 20, are held for managing liquidity risk Cash and cash equivalents of £4,725,000 have no stated maturity but can be accessed on demand Trade and other receivables of £1,258,000 are generally recoverable within one month from the reporting date

Liquidity risk is managed in line with the Lloyds Banking Group Funding and Liquidity Risk Policy

Liquidity risk has been analysed as arising from the settlement of balances owed to other group undertakings of £60,000 (2008 £134,000) and other payables of £257,000 (2008. £175,000) These amounts are all contractually due within one month from the reporting date

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

14. Risk management (continued)

(iii) Capital risk

Capital risk is defined as the risk that

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

The business of the Company is regulated by the FSA The FSA specifies the minimum amount of capital that must be held by the Company The minimum required capital must be maintained at all times throughout the year

The Company's objectives when managing capital are

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

The Company manages the capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets

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

The table below sets out the regulatory capital and the required capital held at 31 December in each year The current year information is, in general, an estimate that will be updated once the FSA returns for the year are finalised

	2009 £ 000	2008 £ 000
Regulatory capital held	1,694	1,694
Regulatory capital requirement	10	10

All minimum regulatory requirements were met during the year

(iv) Legal and regulatory risks

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

15 Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Halifax Financial Services (Holdings) Limited, a Company registered in the United Kingdom

The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Halifax Financial Services (Holdings) Limited is the parent undertaking of the smallest such group of undertakings Copies of the Lloyds Banking Group plc financial statements in which the Company is consolidated can be obtained from the Group Secretary's Department, Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ

(b) Transactions and balances with related parties

Transactions between the Company and other companies in the Lloyds Banking Group

The Company has entered into the following transactions with other related parties during the year and holds the following balances with other related parties at the end of the year

Counterparty	Transaction type	Relationship	2009 £000	2008 £000
Halifax plc	Other receivables - commission	Fellow group undertaking	-	396
	Movement in - commission	Fellow group undertaking	6,935	6,134
Halifax plc	Other receivables - ex gratia	Fellow group undertaking	-	-
	Movement in - ex gratia	Fellow group undertaking	(306)	(284)
Halifax plc	Other receivables - payroll	Fellow group undertaking	-	-
	Movement in - payroll	Fellow group undertaking	(1,816)	(1,329)
Halifax plc	Other receivables – other recharges	Fellow group undertaking	-	-
	Movement in – other recharges	Fellow group undertaking	(2,074)	(279)
Bank of Scotland plc	Other receivables - commission	Fellow group undertaking	217	20
	Movement in - commission	Fellow group undertaking	310	284
Bank of Scotland plc	Other receivables – bank accounts	Fellow group undertaking	4,200	2,570
	Movement in – bank accounts	Fellow group undertaking	1,802	108
HBOS Financial Services Ltd	Other payables - recharges	Fellow group undertaking	-	(15)
	Movements in - recharges	Fellow group undertaking	(1,447)	(1,133)
Clerical Medical Investment Group Ltd	Other payables - recharges	Fellow group undertaking	-	(39)
	Movements in - recharges	Fellow group undertaking	-	(39)
Bank of Scotland plc	Other payables – accounts payable	Fellow group undertaking	(60)	(80)
	Movements in – accounts payable	Fellow group undertaking	(865)	(788)

All the transactions summarised above were entered into on an arm's length basis The amounts outstanding at the end of the year are included in other receivables / payables as appropriate and are repayable on demand unless otherwise specified in the relevant note The Company paid no dividends to its parent company in the year ended 31 December 2009 (2008 £2 8m)

Transactions between the Company and Key Management

Transactions between the key management personnel of the Company and parties related to them as defined in IAS 24 "Related Party Disclosures" are as follows

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

15. Related party transactions (continued)

Key management compensation

	2009 £ 000	2008 £ 000
Total emoluments	163 6	118 1
Pension contributions and entitlements	31 4	20 4
Other long-term benefits	7 3	0 4
Share-based payments	-	25 3

16. Standards and interpretations effective in 2009

The following standards, amendments to and interpretations of published standards which have the potential to impact on the Company's operations have been issued and are mandatory for the year ended 31 December 2009 Their relevance to the Company's operations is assessed below

- IFRS 8 "Operating Segments" This standard replaces IAS 14 "Segment Reporting" and requires reporting of financial and descriptive information about operating segments which are based on the way in which financial information is evaluated and reported internally Adoption of this standard has had no impact on the disclosures made by the Company or on the financial results or position of the Company

- Amendment to IAS 1 "Presentation of Financial Statements" This standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content All changes in equity in respect of transactions with shareholders in their capacity as shareholders are required to be presented separately from changes in equity arising from transactions with other parties ("non-owner"), in a statement of changes in equity All non-owner changes in equity (comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (an income statement and a statement of comprehensive income) The changes required on adoption of this standard relate only to presentation and disclosure and have therefore had no overall impact on the financial results or position of the Company other than to rename the income statement as the statement of comprehensive income and the cash flow statement as the statement of cash flows IAS 1 has been further amended by an amendment to IAS 32, details of which are set out in later in this section

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 32 "Financial Instruments Presentation" The amendments are relevant to entities that have issued financial instruments that are (i) puttable financial instruments (instruments which allow the holder to require the issuer to redeem the instruments for cash), or (ii) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation Under the revised IAS 32, subject to extensive detailed criteria being met, such instruments will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities The amendments will require reclassifications from or to equity when the specified criteria are no longer met, or when they are subsequently met IAS 1 has been amended to require disclosure of (i) summary quantitative data about the amount classified as equity, (ii) the entity's objectives, policies and processes for redeeming the instruments, and (iii) the expected cash outflow on redemption and how this has been calculated in respect of a puttable financial instrument which has been classified within equity Adoption of these amendments has had no impact on the financial results or position of the Company

- Improvements to International Financial Reporting Standards 2008 (majority of changes effective for accounting periods beginning on or after 1 January 2009) – this is the first standard published under the IASBs annual improvements process, which is intended to deal with non-urgent, minor amendments to standards The standard includes 35 amendments and is split into two parts (i) amendments that result in accounting changes for presentation, recognition or measurement purposes, and (ii) amendments that are terminology or editorial changes only Adoption of this standard has had only a minor impact on some of the disclosures given in the Company financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

16. Standards and interpretations effective in 2009 (continued)

- Amendment to IAS 27 "Consolidated and Separate Financial Statements" The amendment removes the definition of the "cost method" under IAS 27, thereby removing the distinction between pre- and post-acquisition profits in an entity's separate financial statements All dividends from a subsidiary, jointly controlled entity or associate can therefore be recognised directly in the statement of comprehensive income Previously, dividends paid out of pre-acquisition profits were set against the carrying value of the investment in the balance sheet However, an entity must now consider whether the payment of such dividends results in impairment of the relevant investment IAS 27 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary rather than its fair value Adoption of these amendments has had no impact on the financial results or position of the Company Generally, due to the capital constraints applicable to the entity's subsidiaries which are carried at cost, dividends are not paid out of pre-acquisition reserves so no impairment losses would be expected to arise in respect of the payment of dividends from these entities No reorganisations have been carried out which meet the amended conditions set out in IAS 27 These amendments have not yet been endorsed by the EU

- Amendment to IFRS 7 "Financial Instruments Disclosures" The amendments introduce enhanced disclosures about fair value measurement and liquidity risk For fair value measurements, a three level hierarchy has been introduced A financial instrument should be classified into one of these levels in its entirety, with the appropriate level in the hierarchy being determined on the basis of the lowest level input that is "significant" to the fair value measurement For those instruments which have significant unobservable inputs (Level 3) the amendment requires disclosure of the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period, sales, purchases, and sensitivity analysis of reasonably possible changes in assumptions Adoption of these amendments has resulted in additional quantitative disclosure being provided in the relevant notes The amendments in respect of liquidity risk clarify the scope of items to be included in the maturity analyses required by IFRS 7 by changing the definition of liquidity risk to include only financial liabilities that are settled by delivering cash or another financial instrument The amendments also clarify that a hybrid contract that is a financial liability should not be separated into a host contract and related embedded derivative for the purpose of the maturity analysis Adoption of these amendments has had no impact on the liquidity risk disclosures provided by the Company

17. Standards and interpretations in issue but not adopted early

The following standards, amendments to and interpretations of published standards have been issued and will be relevant to the Company's operations but have not been adopted early by the Company

- Amendment to IAS 27 "Consolidated and Separate Financial Statements" (effective for accounting periods beginning on or after 1 July 2009) The standard requires that any changes in the parent's ownership of a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders As a result, any gains or losses arising from such transactions would be taken directly to equity rather than being recognised through the statement of comprehensive income The standard also specifies the accounting required when control of an entity is lost Adoption of this standard will only be required in respect of any future changes in the control of entities accounted for by the Company in accordance with IAS 27

- Amendment to IAS 39 "Financial Instruments Recognition and Measurement" (effective for accounting periods beginning on or after 1 July 2009) This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for hedge designation should be applied in particular situations Adoption of this amendment will have no impact on the financial results or position of the Company

- Improvements to International Financial Reporting Standards 2009 (majority of changes effective for accounting periods beginning on or after 1 January 2010) This is the second standard published under the IASBs annual improvements process, which is intended to deal with non-urgent, minor amendments to standards The standard includes amendments to 12 standards Adoption of this standard will have no impact on the financial results, financial position or disclosures given in the Company financial statements This standard has not yet been endorsed by the EU

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

17. Standards and interpretations in issue but not adopted early

- Amendment to IAS 24 "Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2011) This revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party A partial exemption is provided from the disclosure requirements of IAS 24 for government-related entities, meaning that there is no need to disclose related party transactions and outstanding balances (including commitments) with (i) a government that has control, joint control or significant influence over the reporting entity, and (ii) an other entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the related entity The amendment also simplifies the definition of a related party, clarifies its intended meaning and eliminates a number of inconsistencies Adoption of this amendment will have no impact on the financial results, financial position or disclosures given in the Company financial statements This amendment has not yet been endorsed by the EU

- IFRS 9 "Financial Instruments Part 1 Classification and Measurement" (effective for accounting periods beginning on or after 1 January 2013) IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets Under IFRS 9, only two measurement categories are available being fair value through profit or loss and amortised cost Previously, categories of available-for-sale and held-to-maturity were also available The decision on classification is made at initial recognition and will depend on an entity's business model for managing its financial instruments and the contractual cash flow characteristics of the financial instruments An instrument is subsequently measured at amortised cost only if it is a debt instrument and (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest All other debt instruments are to be measured at fair value through profit or loss All equity instruments are to be subsequently measured at fair value Gains and losses in respect of equity instruments held for trading will be recognised through the income statement For other equity instruments, it will be possible to make an irrevocable election at initial recognition to recognise realised and unrealised fair value gains and losses directly in equity through the statement of comprehensive income It will not be possible to recycle gains and losses in respect of such investments to the income statement although dividend income associated with such instruments will be recognised in the income statement rather than being taken directly to equity Adoption of this standard, which has not yet been endorsed by the EU, is not expected to have any impact on the financial results or position of the Company

18. Events after balance sheet date

There are no material post balance sheet events to report