Halifax Loans Limited

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

Registered office

Trinity Road
Halifax
United Kingdom
HX1 2RG

Registered number

02312099

Current directors

A R Agarwal
J Singh

Company Secretary

D D Hennessey

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2019

The directors present their report and the audited financial statements for Halifax Loans Limited ("the Company"), a company registered in England, for the year ended 31 December 2019. The Company is a wholly owned subsidiary of Bank of Scotland plc (BoS plc).

Business Overview

The Company's principal objective 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 The Company is no longer active in selling new mortgages or facilitating further advances for existing customers.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 4. The Company's profit before tax for the financial year was £154k (2018: £213k).

Interest receivable in the year was £186k which decreased from £244k in 2018 due to gross loans and advances to customers reducing to £3,793k in the year (2018: £4,894k) as the mortgage book continues to run off.

The Company's Mortgage book balance is £3,793k (2018: £4,894k). It is expected that the book will continue to run off, earning interest income on its remaining customer loans, enabling it to repay all its future liabilities.

Principal risks and uncertainties

The key risks and uncertainties faced by the Company are managed within the framework established for Lloyds Banking Group plc. The key risks surrounding credit, liquidity, markets and operations are discussed in note 10. Internal Risk teams continually monitor the loans ensuring compliance and that customers are being treated fairly.

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the retail customers of the Lloyds Banking Group plc and as a result have a material adverse effect on the Lloyds Banking Group plc's results of operations, financial condition or prospects.

As a result of the global health issues, the potential for operational risks materialising increases, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the business will need to change its ways of working whilst managing any site contamination to ensure continuity and support to colleagues and customers.

Dividends

No dividend was paid by the Company in 2019 (2018 £11.5m).

Key performance indicators

The Company's directors are of the opinion that KPI's are not required and results based on interest receivable and impaired loans relative to the amount of gross loans and advances to customers are sufficient for an understanding of the development, performance and position of the Company. Included in the Directors' report is information as to how the Company's directors engage with its relevant stakeholders.

Employees

The Company has no employees (2018: nil). It uses the services of its immediate parent undertaking for which a management charge, included in operating expenses, is made.

Directors

The directors of the Company, who were in office during the year are shown below. The directors were in place at the beginning of the reporting year and the approval of the Annual report and financial statements:

Ajey Agarwal
Jasjyot Singh

There has been no change to directors during 2019.

Directors' report (continued)

For the year ended 31 December 2019

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. 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 the 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
- 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for 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.

Directors' confirmations

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 the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement on going concern

In context of the Covid-19 pandemic and the potential adverse impact on the Company. The Directors are satisfied that the financial statements have been prepared on a going concern basis taking into account the following;

- The current LTV profile of its customer loans provides significant mitigation against the effects of an adverse credit environment.
- There is no expectation that its parent, Bank of Scotland plc, will request a repayment in advance of the Company's ability to pay.
- Lloyds Banking Group plc will honour the current letter of support to its subsidiaries (including the Company) dated 19th February 2020.

Financial risk management

The key risks surrounding credit, liquidity, markets and operations are discussed in note 10. 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.

Future Developments

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

Directors' report (continued)
For the year ended 31 December 2019

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

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

Ajey Agarwal
Director

26th June 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest receivable and similar income		**186**	244
Net interest income		**186**	244
Impairment on loans and advances	5	**-**	3
Operating expenses	2	**(32)**	(34)
Profit before tax		**154**	213
Taxation	3	**(29)**	(41)
Profit for the year and total comprehensive income		**125**	172

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

Statement of financial position
As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Amounts owed by group companies	9	**2,124**	907
Loans and advances to customers	6	**3,792**	4,893
Total assets		**5,916**	5,800
LIABILITIES			
Amounts owed to group companies	9	**274**	270
Current tax liability	3	**30**	42
Deferred tax liability	4	**9**	10
Total liabilities		**313**	322
EQUITY			
Retained profits		**5,603**	5,478
Total equity		**5,603**	5,478
Total equity and liabilities		**5,916**	5,800

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

The financial statements on page 4-7 were approved by the board of directors and were signed on its behalf by:

Ajey Agarwal
Director
26th June 2020

Statement of changes in equity
For the year ended 31 December 2019

	Share capital £'000	Retained profits £'000	Total equity £'000
At 1 January 2018	-	16,806	16,806
Profit for the year being total comprehensive income attributable to:			
- Owners of the parent	-	172	172
- Dividend paid to equity holders of the Company	-	(11,500)	(11,500)
At 31 December 2018	-	**5,478**	**5,478**
At 1 January 2019	-	**5,478**	**5,478**
Profit for the year being total comprehensive income attributable to:			
- Owners of the parent	-	125	125
At 31 December 2019	-	**5,603**	**5,603**

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

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows generated from operating activities		
Profit before taxation	**154**	213
Adjustments for:		
- Net decrease in Loans and advances to customers	**1,101**	1,953
- Net increase in Amounts owed by group companies	**(1,217)**	-
- Loss on Investment in subsidiary	**-**	4
- Net increase in Loans & advances to customers - initial application of IFRS 9	**-**	65
Cash generated from operations	**38**	2,235
Corporation tax paid	**(42)**	(49)
Net cash (used in) / generated from operating activities	**(4)**	2,186
Cash flows generated from / (used in) financing activities		
Repayment of borrowings with parent undertakings	**-**	(6,129)
Proceeds from borrowings with other related parties	**4**	6
Dividends paid	**-**	(11,500)
Dividends received	**-**	15,437
Net cash generated from / (used in) financing activities	**4**	(2,186)
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 2019

1. Accounting policies

1.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

These financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS 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 directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Details of IFRS pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 13. No standards have been early adopted.

1.2 Revenue recognition

Net interest income
Interest income and expense are 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 or loss. The effective interest method is used to calculate the interest income or interest expense recognised 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 to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the 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. Interest income from non-credit impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses.

1.3 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 the obligation is discharged, cancelled or expires.

Loans and advances to customers at amortised cost

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales.

The company initially recognises loans and advances, deposits, debt securities in issue and subordinated liabilities when the company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of securities and other financial assets and trading liabilities are recognised on trade date, being the date that the company is committed to purchase or sell an asset.

Borrowings

Borrowings 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 rate method.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.4 Impairment of financial assets

The impairment charge in the income statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the company at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. For UK mortgages, the company uses a backstop of 180 days past due as mortgage exposures more than 90 days past due, but less than 180 days, typically show high cure rates and this aligns with Lloyds Banking Group plc's risk management practices.

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. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit impaired (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance 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 both secured and unsecured retail 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 continuing attempts to recover are no longer appropriate.

1.5 Dividends

Dividends on ordinary shares are recognised through equity in the period in which they are approved. No dividends were approved in 2019 (2018: £11.5m).

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.6 Taxation, including deferred income taxes

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

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

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

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

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

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

1.7 Critical accounting estimates and judgements in applying accounting policies

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 estimates 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, are as follows:

Allowance for impairment losses

At 31 December 2019, the Company carried a provision of £1k (2018: £1k) 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.

a) Definition of Default

The probability of default (PD) of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the expected credit losses (ECL) allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.4 Impairment of financial assets. The Company has rebutted the presumption in IFRS 9 that default occurs no later than when a payment is 90 days past due for UK mortgages.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.7 Critical accounting estimates and judgements in applying accounting policies (continued)

b) Lifetime of an exposure

The PD of a financial asset is dependant on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing.

c) Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. A deterioration in the Retail Master Scale of three grades for personal mortgages, is treated as a SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.

d) Origination PDs

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not, generally, available and consequently management judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

e) Post-model adjustments

Limitations in the Company's impairment models may be identified through its on-going assessment of the models. In these circumstances, judgement is used to make appropriate adjustments to the Company's allowance for impairment losses. These adjustments are generally modelled taking into account the particular attributes of the exposure which have not been adequately captured by the primary impairment model. Expert judgements are made on behalf of the Company by Lloyds Banking Group plc.

f) Forward looking information

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, Lloyds Banking Group plc has developed an economic model to project a wide range of key impairment drivers using information derived mainly from external sources. These drivers include factors such as the unemployment rate, the house price index, commercial property prices and corporate credit spreads.

The model generated economic scenarios for the six years beyond 2019 are mapped to industry-wide historical loss data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. Alongside a defined central scenario three further scenarios are generated by averaging a group of individual scenarios around specified points along the loss distribution to reflect the range of outcomes. The central scenario reflects Lloyds Banking Group plc's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also produced together with a severe downside scenario.

Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included. At 31 December 2018 and 2019, the base case, upside and downside scenarios each carry a 30 per cent weighting; the severe downside scenario is weighted at 10 per cent.

The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearity of losses are captured. A committee under the chairmanship of the Chief Economist meets quarterly, to review and, if appropriate, recommend changes to the economic scenarios to the Chief Financial Officer and Chief Risk Officer. Findings dealing with all aspects of the expected credit loss calculation are presented to the Group Audit Committee.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.7 Critical accounting estimates and judgements in applying accounting policies (continued)

f) Forward looking information (continued)

The tables below shows the impact on the Company's ECL resulting from a decrease / increase in Loss Given Default for a 10 percentage point (pp) increase / decrease in the UK House Price Index (HPI). All values show below are to the nearest £'s.

HPI	31 December 2019 10pp Increase	31 December 2019 10pp Decrease	31 December 2018 10pp Increase	31 December 2018 10pp Decrease
ECL impact, £'s	**(121)**	**142**	**(121)**	**142**

The table below shows the impact on the Company's ECL resulting from a decrease / increase for a 1 percentage point (pp) increase / decrease in the UK Unemployment rate. All values show below are to the nearest £'s.

UK Unemployment	31 December 2019 1pp Increase	31 December 2019 1pp Decrease	31 December 2018 1pp Increase	31 December 2018 1pp Decrease
ECL impact, £'s	**6**	**(7)**	**6**	**(7)**

2. Operating expenses

	Note	2019 £'000	2018 £'000
Management fees		**32**	32
Other administrative expenses		**-**	2
		32	34

The Company does not have any employees (2018: 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 (2018: £6k) was borne by the parent company.

No remuneration was paid or is payable by the Company to the Directors (2018: £nil). The Directors, who are considered to be the key management personnel of the Company, are employed by other companies in Lloyds Banking Group plc. Their services to the Company are incidental to their other activities within the Group.

3. Taxation

a) Analysis of charge for the year	2019 £'000	2018 £'000
UK corporation tax:		
- Current tax on taxable profit for the year	**30**	42
Current tax charge	**30**	42
UK deferred tax:		
- Origination and reversal of timing differences	**(1)**	(1)
Deferred tax credit (see note 4)	**(1)**	(1)
Tax charge	**29**	41

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

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

3. Taxation (continued)

b) Factors affecting the tax charge for the year

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

	2019 £'000	2018 £'000
Profit before tax	**154**	213
Tax charge thereon at UK corporation tax rate of 19.0% (2018: 19.0%)	**29**	41
Tax charge on profit before tax	**29**	41
Effective rate	**19.0%**	19.0%

Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent on 1 April 2020. The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant

4. Deferred tax liability

Movement in the deferred tax liability

	2019 £'000	2018 £'000
Liabilities at 1st January	**10**	**11**
Credit for the year	(1)	(1)
Balance at 31 December	**9**	**10**

Deferred tax credit:	2019 £'000	2018 £'000
Other temporary differences	(1)	(1)
	(1)	**(1)**

Deferred tax liabilities comprises:	2019 £'000	2018 £'000
Other temporary differences	9	10
	9	**10**

Notes to the financial statements (continued)

For the year ended 31 December 2019

5. Impairment on loans and advances

31 December 2019

	Impairment			
	Stage 1 £'000	**Stage 2** £'000	**Stage 3** £'000	**Total** **£'000**
Impact of transfers between stages	-	-	-	-
Other changes in credit quality	-	-	-	-
Repayments	-	-	-	-
Other items credited to income statement	-	-	-	-
	-	-	-	-

Impairment transfers, changes in credit quality, additions and other items were less than £1k therefore not shown in the above table.

31 December 2018

	Impairment			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Impact of transfers between stages	-	-	-	-
Other changes in credit quality	-	2	-	2
Repayments	-	1	-	1
Other items credited to income statement	-	3	-	3
	-	3	-	3

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

6. Loans and advances to customers

	2019 £'000	2018 £'000
Gross loans and advances to customers	**3,793**	4,894
Less: impairment provision	**(1)**	(1)
Net loans and advances to customers	**3,792**	4,893
of which:		
Due within one year	**658**	581
Due after one year	**3,134**	4,312
	3,792	4,893

Loans and advances to customers at 31 December 2019

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2019	**756**	**3,460**	**678**	**4,894**
Transfers to Stage 1	31	(31)	-	-
Transfers to Stage 2	(6)	17	(11)	-
Transfers to Stage 3	-	(214)	214	-
Decrease in loans and advances to customers	(187)	(648)	(266)	(1,101)
As at 31 December 2019	**594**	**2,584**	**615**	**3,793**
Allowance for impairment losses	-	-	**(1)**	**(1)**
Total loans and advances to customers	**594**	**2,584**	**614**	**3,792**

Loans and advances to customers at 31 December 2018

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2018	1,228	5,175	513	6,916
Transfers to Stage 1	43	(43)	-	-
Transfers to Stage 3	(48)	(203)	251	-
Decrease in loans and advances to customers	(467)	(1,469)	(86)	(2,022)
As at 31 December 2018	756	3,460	678	4,894
Allowance for impairment losses	-	-	(1)	(1)
Total loans and advances to customers	756	3,460	677	4,893

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

7. Investment in subsidiary undertakings

	2019 £'000	2018 £'000
Cost		
At 1 January	-	40,483
Return of capital	-	(15,441)
Investment written off	-	**(25,042)**
At 31 December	-	-
Provisions		
At 1 January	-	25,042
Utilisation of provision	-	**(25,042)**
Provision at 31 December	-	-
Carrying value of investments at 31 December	-	-

Halifax Mortgage Services (Holdings) Limited, a directly held subsidiary of the Company, was liquidated during the financial year 2018.

8. Share capital

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

Ordinary shares carry one vote each.

9. 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 directors, who consider that their duties in respect of the Company are incidental to his Group responsibilities. No director entered into transactions with the Company in the year (2018 none).

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 (2018: £32k). The auditors' remuneration of £6k (2018: £6k) was borne by the parent company.

There are currently no commercial terms agreed with the Company's related parties.

No intercompany balances are secured and no provision for doubtful debt is provided in the accounts for 2019.

A summary of the outstanding balances at the year end is set out below.

	2019 £'000	2018 £'000
Amounts owed by group companies		
Amounts owed by parent	**2,124**	907
Amounts owed to group companies		
Amounts owed to other related parties	**274**	270

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. 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 foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the immediate parent company, Bank of Scotland plc and the ultimate parent, Lloyds Banking Group plc.

10.1 Credit risk

Credit risk management

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 Statement of financial position carrying amount for loans and advances to customers.

	As at 31st December 2019		As at 31st December 2018	
	Maximum Exposure £'000	Net Exposure £'000	Maximum Exposure £'000	Net Exposure £'000
Loans and advances to customers, net (1)	3,792	3,792	4,893	4,893

(1) Amounts shown net of impairment balances

Classifications of lending incorporate expected recovery levels for mortgages, as well as probabilities of default assessed using internal rating models. Good quality lending includes the lower assessed default probabilities and all loans with low expected losses in the event of default, with other categories reflecting progressively higher risks and lower expected recoveries.

Balance at 31 December 2019

		Gross loans and advances to customers - Loan Quality			
		Stage 1 £'000	**Stage 2** £'000	**Stage 3** £'000	**Total £'000**
RMS 1-6	0.00-4.50%	594	2,490	-	3,084
RMS 7-9	4.51-14.00%	-	47	-	47
RMS 11-13	20.01-99.99%	-	47	-	47
RMS 14	100%	-	-	615	615
Total		**594**	**2,584**	**615**	**3,793**

Balance at 31 December 2018

		Gross loans and advances to customers - Loan Quality			
		Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
RMS 1-6	0.00-4.50%	756	3,296	-	4,052
RMS 7-9	4.51-14.00%	-	81	-	81
RMS 10	14.01-20.00%	-	-	-	0
RMS 11-13	20.01-99.99%	-	83	-	83
RMS 14	100%	-	-	678	678
Total		756	3,460	678	4,894

The principle sources of credit risk for the Company arise from Loan and Advances to customers.

The risk division sets out the credit principles, credit risk policies and credit risk appetite statements. These are subject to regular review and governance, with any changes subject to an approval process. Risk teams monitor credit performance trends, review and challenge exceptions, and test the adequacy and adherence to credit risk policies and processes.

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. All Loans and advances to customers are assessed for impairment. No amounts due to group undertakings are impaired (2018: £nil).

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

10. Financial risk management (continued)

10.1 Credit risk (continued)

Allowance for impairment losses by Stage

In respect of drawn balances at 31 December 2019

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2019	-	-	1	1
Balance at 31 December 2019	-	-	1	1

In respect of drawn balances at 31 December 2018

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2018	-	3	2	5
Other items	-	-	(1)	(1)
Credit to the income statement (note 5)	-	(3)	-	(3)
Balance at 31 December 2018	-	-	1	1

An analysis by loan-to-value ratio of the Company's residential mortgage lending is provided below. The value of collateral used in determining the loan-to-value ratios 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.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2019 £'000
Less than 70%	594	2,584	615	3,793
At 31 December	**594**	**2,584**	**615**	**3,793**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2018 £'000
Less than 70%	756	3,460	678	4,894
At 31 December	756	3,460	678	4,894

Repossessed collateral

No properties have been repossessed during the year (2018: nil).

During 2019, the Company did not take physical possession of any collateral; instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness. Any surplus funds are then 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 2019

10. Financial risk management (continued)

10.2 Liquidity risk

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.

Lloyds Banking Group plc manages and monitors liquidity risks and ensures that liquidity risk management systems and arrangements are adequate with regards to the internal risk appetite, strategy and regulatory requirements. Liquidity policies and procedures are subject to independent internal oversight by Risk. The Company ensures it is compliant with these requirements, policies and procedures.

10.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

A sensitivity analysis has been performed as at 31 December 2019 to assess the impact on interest margins being 150 basis points higher or lower with all other variables held constant. The Company has taken a prudent approach to this analysis by assuming that any basis point movement would be completely reflected in all variable products. The net effect on the Company's Statement of comprehensive income would be as shown in the following table:

	-150bps £'000	Interest receivable £'000	+150 bps £'000
2019	120	186	252
2018	156	244	332

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

2019	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	658	516	1,557	1,061	**3,792**

2018	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	581	371	2,150	1,791	4,893

Within the less than 1 year category there are £338k of loans and advances which are past term and have not renegotiated. This comprises of 10 accounts all with an average LTV of less than 17%.

10.4 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.

The company has provided loans and advances to customers, on fixed, tracker and variable rate bases. For all lending types, the fair value has been assessed by discounting anticipated cash flows (based on contractual interest rates and capital repayment) at a market rate offered by the company.

As at 31 December 2019, the fair value was assessed to be in-line with the carrying amount of loans and advances to customers at £3,792k (2018: £4,893k). The fair value assessment is classified as level 3 due to significant unobservable inputs used in the valuation models.

The fair value of all other financial assets and liabilities, which comprise amounts due to and due from related party undertakings, are equal to their carrying value and classified as level 2 in the fair value hierarchy.

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. Financial risk management (continued)

10.5 Financial assets and liabilities available for offsetting

Within the loans and advances and amounts owed to group companies in note 9, all current asset and current liability amounts are shown net. Amounts available for offsetting in accordance with IAS32 are offset within these financial statements.

10.6 Capital disclosures

The managed capital of the Company constitutes total equity. This consists entirely of issued ordinary share capital and retained profit. As at 31 December 2019, total managed capital was £5,603k (2018: £5,478k).

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;

- Lloyds Banking Group plc will continue to support the company in the event of a loss.

11. Contingent liabilities

11.1 Contingent tax liability

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 £357K (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.

11.2 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.

12. Events since the balance sheet date

Since the balance sheet date there has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The Directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the Directors continue to monitor the environment. Based on the information known at the time, and the lending risk profile, the impact on the Company's Equity position is considered to be immaterial.

Notes to the financial statements (continued)

For the year ended 31 December 2019

13. Future Accounting developments

The following pronouncements are not applicable for the year ending 31 December 2019 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 26th June 2020 these pronouncements have been endorsed by the European Union.

Pronouncement	Nature of change
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements). These amendments are not expected to have a significant impact on the Group.

14. Ultimate parent undertaking and controlling party

The immediate parent company is Bank of Scotland plc.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is Bank of Scotland plc. This company is incorporated in Scotland. Copies of the consolidated annual report and accounts of Bank of Scotland plc may be obtained from Lloyds Banking Group plc's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

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

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 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2019; 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 where:

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

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

Reporting on other information

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

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

With respect to the 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.

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the 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 2, 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 members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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 from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Daniel Pearce

Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
26 June 2020

Company Registration Number: 02312099