Lloyds Bank Hill Samuel Holding Company Limited

Annual report and accounts
for the year ended 31 December 2015

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

00162308

Current directors

D R Chalk
D J Joyce

Company Secretary

Lloyds Secretaries Limited

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2015

The directors present their report and the audited financial statements of Lloyds Bank Hill Samuel Holding Company Limited ("the Company") for the year ended 31 December 2015.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 00162308).

The Company's principal activity is to manage the residual matters arising from its former investment in UIC Insurance Company Limited ("UIC"), largely involving the provision against potential asbestosis and pollution claims.

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 14 to the financial statements.

Key performance indicators ("KPIs")

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, and therefore no additional KPIs are presented.

Future outlook

The Company continues to hold a provision for obligations relating to its former subsidiary and is working to conclude on a final liability. The Company holds cash balances to settle future payment of its liability.

Dividends

No dividends were paid or proposed during the year ended 31 December 2015 (2014: £nil).

Going concern

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

Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

R Warren	(resigned 30 November 2015)
D R Chalk	(appointed 6 January 2016)

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 or from the date of appointment in respect of directors who join the board of the Company during the financial year. Directors no longer in office but who served on the board of the Company at any time in the financial year have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are 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.

Directors' report (continued)

For the year ended 31 December 2015

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 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards ("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.

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has 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.

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

Independent auditors

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

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

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

D. Joyce

D J Joyce
Director

7 July 2016

Independent auditors' report to the member of Lloyds Bank Hill Samuel Holding Company Limited

Report on the financial statements

Our opinion

In our opinion, Lloyds Bank Hill Samuel Holding Company Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 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.

What we have audited

The financial statements, included within the Annual Report and accounts (the "Annual Report") comprise:

- the Balance sheet as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended;
- ~~the Statement of changes in equity for the year then ended; and~~
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. 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 in preparing the Directors' report; and take advantage of the small companies exemption from preparing a Strategic report. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the member of Lloyds Bank Hill Samuel Holding Company Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

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 and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (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 member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Joanne Leeson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

7 July 2016

Statement of comprehensive income

For the year ended 31 December 2015

	Note	**2015** **£'000**	2014 £'000
Interest income	3	**3,417**	3,206
Other operating expenses	4	**(5)**	(18)
Profit before tax		**3,412**	3,188
Taxation	7	**(974)**	(874)
Profit for the year attributable to owners of the parent, being total comprehensive income		**2,438**	2,314

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

Balance sheet
As at 31 December 2015

	Note	2015 £'000	2014 £'000
ASSETS			
Cash and cash equivalents		**29,838**	28,406
Other current assets	8	**595,455**	592,040
Total assets		**625,293**	620,446
LIABILITIES			
Borrowed funds	9	**254**	254
Provision for liabilities and charges	10	**29,628**	28,215
Current tax liability		**1,882**	875
Deferred tax liability	11	**-**	11
Total liabilities		**31,764**	29,355
EQUITY			
Share capital	12	**100,000**	100,000
Share premium account		**77,814**	77,814
Retained earnings		**415,715**	413,277
Total equity		**593,529**	591,091
Total equity and liabilities		**625,293**	620,446

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

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

D. Joyce

D J Joyce
Director

7 July 2016

Statement of changes in equity

For the year ended 31 December 2015

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January 2014	100,000	77,814	410,963	588,777
Profit for the year being total comprehensive income	-	-	2,314	2,314
At 31 December 2014	**100,000**	**77,814**	**413,277**	**591,091**
Profit for the year being total comprehensive income	-	-	2,438	2,438
At 31 December 2015	**100,000**	**77,814**	**415,715**	**593,529**

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

Cash flow statement

For the year ended 31 December 2015

	2015 £'000	2014 £'000
Cash flows used in operating activities		
Profit before tax	**3,412**	3,188
Adjustments for:		
- Interest income	**(3,417)**	(3,206)
- Foreign exchange gains	**(2)**	(2)
- Increase/(decrease) in Provision for liabilities and charges	**7**	(10,106)
Changes in operating assets and liabilities:		
- Net increase in Other current assets	**(3,415)**	(3,270)
Cash used in operations	**(3,415)**	(13,396)
Group relief received	**22**	89
Net cash used in operating activities	**(3,393)**	(13,307)
Cash flows generated from investing activities		
Interest income	**3,417**	3,206
Net cash generated from investing activities	**3,417**	3,206
Change in cash and cash equivalents	**24**	(10,101)
Cash and cash equivalents at beginning of year	**28,406**	36,835
Effect of exchange rate movements	**1,408**	1,672
Cash and cash equivalents at end of year	**29,838**	28,406

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 2015

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 applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

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

- Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2011 - 13 cycle of the annual improvements projects.

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2015 and which have not been applied in preparing these financial statements are given in note 18. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Valuation of foreign currency

The financial statements are presented in Sterling which is the Company's functional and presentation currency. Foreign currency transactions are translated into Sterling at the exchange rate prevailing at the date of the transaction. Exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of comprehensive income.

Exchange gains and losses arising from the translation of monetary assets and liabilities at the exchange rate prevailing at the balance sheet date and which are material to these financial statements are recognised in the Statement of comprehensive income.

Income and expenses are translated at the average exchange rates for the period (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the dates of transactions).

All resulting exchange differences are recognised in the Statement of comprehensive income.

Income from financial assets

Interest income is recognised in the Statement of comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired.

Interest bearing financial assets and financial liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

1. Accounting policies (continued)

1.4 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents comprises balances with less than three months' maturity.

1.5 Taxation, including deferred income taxes

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available in the Company or the Group against which these losses can be utilised.

Tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.6 Provision for liabilities and charges

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

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Provisions

The Company establishes provisions for obligations relating to UIC, which was partly owned by the Company up until it was liquidated in 2010. The ultimate claims in respect of the previous insurance business of UIC are uncertain. Accordingly, the provision has been based upon management's current best estimate of the cost after having regard to actuarial estimates of future claims and having considered an appropriate discount rate.

Account has also been taken of reinsurance arrangements that previously protected UIC. The ultimate cost of settling the Company's exposure in respect of the insurance business of UIC and the timing remains uncertain. Therefore over time it is possible that adjustments to the level of provisions held will be necessary.

3. Interest income

	2015	2014
	£'000	£'000
Interest income		
Group interest income (see note 13)	**3,393**	3,182
Cash deposits with Lloyds Bank plc (see note 13)	**24**	24
	3,417	3,206

Notes to the financial statements (continued)
For the year ended 31 December 2015

4. Other operating expenses

	2015 £'000	2014 £'000
Increase in provision (see note 10)	**7**	20
Foreign exchange gains	**(2)**	(2)
	5	18

Fees payable to the Company's auditors for the audit of the financial statements of £12,000 (2014: £12,000) have been borne by a fellow group company and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

5. Staff costs

The Company did not have any employees during the year (2014: none).

6. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2014: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 13).

7. Taxation

	2015 £'000	2014 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**985**	1,060
- Adjustments in respect of prior years	**-**	(175)
Current tax charge	**985**	885
UK deferred tax:		
- Origination and reversal of timing differences	**(11)**	(11)
Tax charge	**974**	874

Corporation tax is calculated at a rate of 20.25% (2014: 21.50%) of the taxable profit for the year.

7. Taxation (continued)

b) Factors affecting the tax charge for the year

Where taxation on the Company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 20.25% (2014: 21.50%), the differences are explained below:

	2015 £'000	2014 £'000
Profit before tax	**3,412**	3,188
Tax charge thereon at UK corporation tax rate of 20.25% (2014: 21.50%)	**691**	685
Factors affecting charge:		
- Non-allowable and non-taxable items	**1**	-
- Adjustments in respect of prior years	**-**	(175)
- Timing differences not recognised	**282**	364
Tax charge on profit on ordinary activities	**974**	874
Effective rate	**28.5%**	27.4%

The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

8. Other current assets

	2015 £'000	2014 £'000
Amounts due from group undertakings (see note 13)	**595,455**	592,040

Amounts due from group undertakings is unsecured, interest bearing and repayable on demand. The Company must give notice of 3 months plus one day prior to withdrawing the right to any funds. Interest is charged at the 3 month LIBOR.

9. Borrowed funds

	2015 £'000	2014 £'000
Amounts due to group undertakings (see note 13)	**254**	254

Amounts due to group undertakings is non-interest bearing and repayable on demand, although there is no expectation that such a demand would be made. The fair value of Amounts due to group undertakings is equal to its carrying amount.

10. Provision for liabilities and charges

	Total £'000
At 1 January 2014	36,651
Charge for the year (see note 4)	20
Exchange adjustments	1,670
Utilised during the year	(10,126)
At 31 December 2014	28,215
Charge for the year (see note 4)	7
Exchange adjustments	1,406
Utilised during the year	-
At 31 December 2015	**29,628**

10. Provision for liabilities and charges (continued)

The provision is held in respect of the Company's obligations arising relating to UIC, which was partly owned by the Company until it was liquidated in 2010. The Company has indemnified a third party against losses arising from a reinsurance contract previously written by UIC which is subject to asbestosis and pollution claims in the United States.

The ultimate cost of settling the Company's exposure in respect of the Insurance business of UIC and the timing remains uncertain. Given the long term nature of many of the claims to which UIC is exposed, unless there is an overall settlement in the short term, it is expected to be a number of years before the amount of the Company's liability can be assessed with certainty. The Company will however take all appropriate opportunities to commute policies with individual Policyholders thereby crystallising those Policyholders liabilities. The provision held represents management's current best estimate of the costs after having regard to actuarial estimates of future claims.

Of the £29,628,000 provision as at 31 December 2015, it is expected that £23,892,000 will be utilised after more than 12 months.

11. Deferred tax liability

The movement in the Deferred tax liability is as follows:

	2015 **£'000**	2014 £'000
Brought forward	**11**	22
Credit for the year (see note 7)	**(11)**	(11)
	-	11

The deferred tax credit in the Statement of comprehensive income comprises the following temporary differences:

	2015 **£'000**	2014 £'000
Other temporary differences	**(11)**	(11)

Deferred tax liability comprises:	**2015** **£'000**	2014 £'000
Other temporary differences	**-**	11

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

12. Share capital

	2015 £'000	2014 £'000
Allotted, issued and fully paid		
400,000,000 ordinary shares of 25p each	**100,000**	100,000

13. Related party transactions

The Company is controlled by Lloyds Bank plc. A number of transactions are entered into with related parties in the normal course of business. These include loan transactions. A summary of the outstanding balances at the year end and the related income for the year are set out below.

	2015 £'000	2014 £'000
Amounts due from group undertakings		
Lloyds Bank plc (see note 8)	**595,455**	592,040
Amounts due to group undertakings		
Lloyds Bank plc (see note 9)	**254**	254
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**29,838**	28,406
Interest income		
Lloyds Bank plc (see note 3)	**3,417**	3,206

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management is comprised of the directors of the Company and the members of the Lloyds Banking Group plc board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

UK Government

In January 2009, the UK government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. HM Treasury's interest fell below 20% on 11 May 2015. As a consequence, HM Treasury is no longer considered to have a significant influence and ceased to be a related party of the Company for IAS 24 Related Party Disclosures purposes at that date.

14. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk and foreign exchange risk; it is not exposed to any significant market risk or business 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, Lloyds Bank plc, and the ultimate parent, Lloyds Banking Group plc. Interest rate risk and liquidity risk faced by the Company are in substance managed and borne by other group undertakings which fund the Company.

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

14. Financial risk management (continued)

14.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The maximum credit exposure of the Company in the event of other parties failing to perform their obligations is considered to be the Balance sheet carrying amount of Cash and cash equivalents and Amounts due from group undertakings totalling £625,293,000 (2014: £620,446,000). The Company's financial assets have no amounts past due or impaired (2014: £nil) and are considered to be of high credit quality.

14.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Group.

Liquidity risks are managed as part of the Group by an intermediate parent company, Lloyds Bank plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

14.3 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.

The Company's interest bearing assets comprise cash deposits and Amounts due from group undertakings.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's Amounts due from group undertakings and takes account of movement in the 3 month LIBOR which is the basis for the interest rate on intercompany balances. A 0.02% (2014: 0.04%) increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as it is the amount by which the 3 month LIBOR decreased in the year.

If the 3 month LIBOR increased by 0.02% (2014: 0.04%) and all other variables remain constant this would increase Interest income by £122,000 (2014: £236,000) and accordingly decrease Interest income by £122,000 (2014: £236,000) if the 3 month LIBOR decreased by the same amount.

14.4 Foreign exchange risk

Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The currency giving rise to this risk is US dollars.

The Company holds provisions in respect of obligations relating to UIC, as disclosed in note 10, which are partly settled in US dollars. The Company holds US dollar cash deposits and has no other significant exposure to the effects of fluctuations in foreign exchange rates.

As the Company is exposed to some residual foreign exchange rate fluctuations a sensitivity analysis has been prepared to illustrate the impact of a change in the foreign exchange rates.

Foreign currency risk - sensitivity analysis

The sensitivity analysis is based on the Company's Cash and cash equivalents and Provision for liabilities and charges denominated in US dollars and considers movements in foreign exchange rates between US dollars and Sterling. A 10.0% change in the foreign currency rate has been used to assess the sensitivity in the Statement of comprehensive income. This rate is appropriate as the rate generally increases or decreases in average increments of 10.0%.

If US dollars strengthen against Sterling by 10.0%, this would approximately decrease the profit before tax by £6,000 (2014: £3,000), and accordingly increase the profit before tax by £6,000 (2014: £3,000) if US dollars worsen against Sterling by the same percentage.

14.5 Financial strategy

The Company does not trade in financial instruments, nor does it use derivatives.

14. Financial risk management (continued)

14.6 Fair values of financial assets and 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 directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

15. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

16. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2014: £nil).

17. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

18. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2015 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued September 2014)	A collection of amendments to IFRSs from the 2012 - 2014 cycle of the annual improvements projects.	Annual periods beginning on or after 1 January 2016
Annual improvement to IFRSs (issued December 2013)	A collection of amendments to IFRSs from the 2010 - 12 cycle of the annual improvements projects.	Annual periods beginning on or after 1 February 2015
Amendments to IAS 1 'Disclosure Initiative'	The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.	Annual periods beginning on or after 1 January 2016

18. Future developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 9 'Financial Instruments' [1]	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised costs, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.	Annual periods beginning on or after 1 January 2018

1. At the date of this report, this pronouncement was awaiting EU endorsement.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

19. Ultimate parent undertaking and controlling party

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