Lloyds Commercial Properties Limited

Annual report and accounts
for the year ended 31 December 2016

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

02013563

Current directors

M R Lickley
J Palmer

Company Secretary

M A A Johnson

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2016

The directors present their report and the audited financial statements of Lloyds Commercial Properties Limited ("the Company") for the year ended 31 December 2016.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 02013563).

The Company provided property management and other property related services to subsidiary undertakings. The Company disposed of its Freehold property in Edinburgh during the year. The Company still holds investments in 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 16 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

No changes in the nature or scale of activity are expected in the foreseeable future.

The Company is part of the wider Lloyds Banking Group, and, at that level, consideration of many of the potential implications following the UK's vote to leave the European Union has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Dividends

No dividends were paid or proposed during the year ended 31 December 2016 (2015: £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:

J Palmer	(appointed 1 December 2016)
I J Lloyd	(resigned 8 March 2016)

Company Secretary

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

P Gittins	(resigned 25 May 2016)
M A A Johnson	(appointed 25 May 2016)

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

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts 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 responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all 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.

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:

M. Lickley

M R Lickley
Director
25 August 2017

Independent auditors' report to the member of Lloyds Commercial Properties Limited

Report on the financial statements

Our opinion

In our opinion, Lloyds Commercial Properties 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 2016 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 2016;
- 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 IFRSs as adopted by the European Union and applicable law.

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.

Opinions on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Directors' Report. We have nothing to report in this respect.

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.

Independent auditors' report to the member of Lloyds Commercial Properties Limited (continued)

Other matters on which we are required to report by exception (continued)

Entitlement to exemptions

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

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.

With respect to the Directors' Report, we consider whether the report includes the disclosures required by applicable legal requirements.

Claire Turner

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

25 August 2017

Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	3	-	12
Dividend income	4	-	24,000
Impairment losses on investments in subsidiary undertakings	12	-	(15,757)
Finance income	5	4	4
Profit on disposal of Property, plant and equipment	6	457	-
Other operating expenses	7	(7)	(22)
Profit before tax		454	8,237
Taxation	10	-	-
Profit for the year attributable to owners of the parent, being total comprehensive income		454	8,237

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

Balance sheet
As at 31 December 2016

	Note	**2016**	2015
		£'000	£'000
ASSETS			
Cash and cash equivalents		**683**	683
Other current assets	11	**24,742**	24,000
Investment in subsidiary undertakings	12	**-**	-
Property, plant and equipment	13	**-**	288
Total assets		**25,425**	24,971
LIABILITIES			
Current tax liability		**-**	-
Total liabilities		**-**	-
EQUITY			
Share capital	14	**-**	-
Retained earnings		**25,425**	24,971
Total equity		**25,425**	24,971
Total equity and liabilities		**25,425**	24,971

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:

M. L

M R Lickley
Director

25 August 2017

Statement of changes in equity

For the year ended 31 December 2016

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015	-	16,734	16,734
Profit for the year being total comprehensive income	-	8,237	8,237
At 31 December 2015	**-**	**24,971**	**24,971**
Profit for the year being total comprehensive income	-	454	454
At 31 December 2016	**-**	**25,425**	**25,425**

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

Cash flow statement

For the year ended 31 December 2016

	2016 £'000	Reclassified 2015 £'000
Cash flows generated from/(used in) operating activities		
Profit before tax	**454**	8,237
Adjustments for:		
- Depreciation	**3**	8
- Finance income	**(4)**	(4)
- Profit on sale of Property, plant and equipment	**(457)**	-
- Dividend income	**-**	(24,000)
- Impairment losses on investments in subsidiary undertakings	**-**	15,757
Cash used in operations	**(4)**	(2)
Proceeds on sale of Property, plant and equipment	**742**	-
Group relief paid	**-**	(1)
Net cash generated from/(used in) operating activities	**738**	(3)
Cash flows generated from investing activities		
- Finance income	**4**	4
- Dividend income	**-**	24,000
Net cash generated from investing activities	**4**	24,004
Cash flows used in financing activities		
Net increase in amounts due from and to group undertakings	**(742)**	(24,000)
Net cash used in financing activities	**(742)**	(24,000)
Change in Cash and cash equivalents	**-**	1
Cash and cash equivalents at beginning of year	**683**	682
Cash and cash equivalents at end of year	**683**	683

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

The 2015 comparatives have been restated to reflect the reclassification explained in note 20.

Notes to the financial statements
For the year ended 31 December 2016

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 pronouncements relevant to the Company have been adopted in these financial statements:

(i) Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2010 - 12 cycle of the annual improvements projects.

(ii) Annual improvement to IFRSs (issued December 2014). A collection of amendments to IFRSs from the 2012 - 14 cycle of the annual improvements projects.

(iii) Amendments to IAS 1: Disclosure Initiative (issued December 2014). The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.

The application of these pronouncements have 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 2016 and which have not been applied in preparing these financial statements are given in note 21. No standards have been early adopted..

These separate financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemptions under IFRS 10 Consolidated Financial Statements and Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company.

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

Revenue

Revenue, which excludes value added tax, represents property management income and is recognised on an accruals basis.

Dividends

Dividend income is recognised in the period in which it is declared.

Income and expense from financial assets

Interest income and expense are 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.3 Other operating expenses

Other operating expenses are recognised in the statement of comprehensive income on an accruals basis.

1. Accounting policies (continued)

1.4 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings and Cash and cash equivalents. The Company has no financial liabilities.

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.

1.5 Property, plant and equipment

Property, plant and equipment is included at historical purchase cost less accumulated depreciation and any impairment allowance. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The value of land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate the difference between the cost and expected residual value over their estimated useful lives, as follows:

Freehold premises - 50 years

Future rates of depreciation are reassessed each year in light of changes to anticipated residual values, and are amended prospectively.

1.6 Cash and cash equivalents

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

1.7 Taxation

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.

Tax assets and liabilities are offset 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.

1.8 Investment in subsidiary undertakings

Investment in subsidiary undertakings is stated in the Balance sheet at cost less any provision for impairment.

Investment in subsidiary undertakings is reviewed for impairment losses at the end of each period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of comprehensive income for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use. For the purposes of assessing impairment, investments are grouped at the lowest level at which cash flows are separately monitored by management.

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.

There are no significant estimates or judgements that have been used in the preparation of these financial statements.

3. Revenue

	2016	2015
	£'000	£'000
Property services charges (see note 15)	-	12

During the year the Company's properties were rented by other group undertakings on a nil rent basis.

Notes to the financial statements (continued)
For the year ended 31 December 2016

4. Dividend income

	2016 £'000	2015 £'000
Dividend income (see note 15)	-	24,000

5. Finance income

	2016 £'000	2015 £'000
Group interest income (see note 15)	4	4

6. Profit on disposal of Property, plant and equipment

During 2016 the company sold the property held in Property, plant and equipment. This has resulted in a gain of £457,000.

7. Other operating expenses

	2016 £'000	2015 £'000
Service charge	-	12
Depreciation (see note 13)	3	8
Other operating expenses	4	2
	7	22

8. Staff costs

The Company did not have any employees during the year (2015 : none).

9. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2015: £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 15).

10. Taxation

a) Analysis of charge for the year

The charge for corporation tax is £nil in both the year ending 31 December 2016 and 31 December 2015.

Corporation tax is calculated at a rate of 20.00% (2015: 20.25%) of the taxable profit for the year.

10. 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:

	2016 £'000	2015 £'000
Profit before tax	**454**	8,237
Tax charge thereon at UK corporation tax rate of 20.00% (2015: 20.25%)	**91**	1,668
Factors affecting charge:		
- Disallowed and non-taxable items	**(91)**	(1,668)
Tax charge on profit on ordinary activities	**-**	-
Effective rate	**0.00%**	0.00%

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.

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.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

11. Other current assets

	2016 £'000	2015 £'000
Amounts due from group undertakings (see note 15)	**24,742**	24,000

Amounts due from related undertakings represents the Dividend income receivable from Target Corporate Services Limited, a subsidiary of the Company.

12. Investment in subsidiary undertakings

	2016 Total £'000	2015 Total £'000
Cost		
Cost brought forward	**15,757**	15,757
Cost at 31 December	**15,757**	15,757
Provision for impairment		
Provision brought forward	**15,757**	-
Charge for the year	**-**	15,757
Provision at 31 December	**15,757**	15,757
Carrying value of investments at 31 December	**-**	-

12. Investment in subsidiary undertakings (continued)

Investment in subsidiary undertakings is stated at cost less impairment. As permitted by section 611 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiaries.

During 2015 the Company impaired its total investment in Target Corporate Services Limited by £15,757,000 to £1. Target Corporate Services Limited reduced its Share capital to £1 and returned the Company's investment via an interim dividend.

The subsidiary undertakings at 31 December 2016 and 31 December 2015, listed below, are all incorporated in England and Wales.

Subsidiary undertakings	Company interest %	Principal activities
Lloyds Commercial Property Investments Limited	100.00%	Property investment
Target Corporate Services Limited	100.00%	Property management

The Company's interest in each of these entities is in the form of ordinary share capital. The subsidiary undertakings have the same registered address as the Company.

13. Property, plant and equipment

	Total £'000
Cost	
At 1 January 2015 and 31 December 2015	423
Disposals	(423)
At 31 December 2016	-
Accumulated depreciation	
At 1 January 2015	127
Charge for the year (see note 7)	8
At 31 December 2015	135
Charge for the year (see note 7)	3
Disposals	(138)
At 31 December 2016	-
Balance sheet amount at 31 December 2016	**-**
Balance sheet amount at 31 December 2015	288

Property, plant and equipment represented a freehold property held by the Company in Edinburgh.

14. Share capital

	2016 £'000	2015 £'000
Allotted, issued and fully paid		
2 ordinary shares of £1 each	-	-

15. 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 and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

	2016 £'000	2015 £'000
Amounts due from group undertakings		
Target Corporate Services Limited	**24,000**	24,000
Lloyds Bank plc	**742**	-
Total Amounts due from group undertakings (see note 11)	**24,742**	24,000
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**683**	683
Revenue		
Target Corporate Services Limited (see note 3)	**-**	12
Finance income		
Lloyds Bank plc (see note 5)	**4**	4
Dividend income		
Target Corporate Services Limited (see note 4)	**-**	24,000
Service charge		
Lloyds Bank plc (see note 6)	**-**	12

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, the directors of Lloyds Bank plc (incorporated in England and Wales) 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.

16. Financial risk management

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

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

16.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

16. Financial risk management (continued)

16.1 Credit risk (continued)

Credit concentration

The maximum credit risk exposure of the Company in the event of other parties failing to fulfil their obligations is considered to be the carrying amount of Other current assets and Cash and cash equivalents totalling £25,425,000 (2015: £24,683,000). Cash and cash equivalents and Amounts due from group undertakings of £742,000 (2015: £nil) are held with Lloyds Bank plc, which is rated A by Standard and Poor's. Amounts due from group undertakings of £24,000,000 (2015: £24,000,000) are due from Target Corporate Services Limited, which is unrated by Standard and Poor's. Management does not expect any counterparty to fail to meet its obligations. The Company's financial assets have no amounts past due or impaired (2015: £nil).

16.2 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 group level, however the Company is exposed to interest rate fluctuations due to factors outside the Company. It is not practicable for the Company to provide a sensitivity analysis as the interest rate on the Company's cash balances is fixed for pre-determined periods with rate reviews being based on a number of measures considered in setting group funding.

The Company does not consider that fluctuations in interest rates would have a significant effect on the Company's performance or position.

16.3 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy. In assessing business risk consideration is given to internal and external factors such as products, funding, resource capability and economic, political and regulatory factors.

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary.

16.4 Financial strategy

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

16.5 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.

17. 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.

18. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2015: £nil).

19. Post balance sheet events

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

20. Reclassification of comparatives

The increase in Amounts due from group undertakings has been reclassified in the Cash flow statement in the 2015 comparatives. Previously this was reported within cash generated from operations and is now reported within cash used in financing activities.

The reclassification has had £nil impact on the profit before or after tax, £nil impact on net assets and has increased cash generated from operations and decreased cash used in financing activities by £24,000,000.

21. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2016 and have not been applied in preparing these financial statements.

Pronouncement	**Nature of change**	***Effective date***
IFRS 9 'Financial Instruments'	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 cost, 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
Minor amendments to other accounting standards	During 2016, the IASB has issued amendments to IAS 7 Statement of Cash Flows (which require additional disclosure about an entity's financing activities) and IAS 12 Income Taxes (which clarify when a deferred tax asset should be recognised for unrealised losses) together with a number of other minor amendments to IFRSs.	Annual periods beginning on or after 1 January 2017

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.

22. 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. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.