HALIFAX FINANCIAL SERVICES (HOLDINGS) LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2016

Member of Lloyds Banking Group plc

CONTENTS

COMPANY INFORMATION

Board of Directors

G M Norton
M E Williams
S W Lowther

Company Secretary

D Clarke

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Registered Office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Company Registration Number

02357558

STRATEGIC REPORT

The Directors present their strategic report on Halifax Financial Services (Holdings) Limited ("the Company") for the year ended 31 December 2016.

The Company forms part of the Insurance division ("Insurance") within Lloyds Banking Group plc ("LBG").

Principal activities

The principal activity is to operate as an intermediate holding company for investment companies within the LBG Insurance division.

Result for the year

The result of the Company for the year ended 31 December 2016 is a profit before tax of £31,209k (2015: £7,615k).

Britain leaving the EU

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.

Key Performance Indicators

The Company is focused on acting as a conduit for dividend and capital movements, maximising capital efficiency and returns for its shareholder and the LBG Insurance division.

During the year dividends of £32,000k were recognised from a subsidiary undertaking (2015: £15,000k).

The Directors are of the opinion that the dividend income is the key performance indicator which is appropriate to the principal activity of the Company. This, together with other metrics which cover customer, operational measures and capital, are included in the balanced scorecard which is used to measure all aspects of the business.

Other Sources

The development, performance and position of the Insurance Division are presented within LBG's annual report, which does not form part of this report.

Outlook

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

Principal risks and uncertainties

During the year, the management of the business and the execution of the Company's strategy was subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to risks including market, credit, capital, liquidity and operational risks are set out in note 13.

On behalf of the Board of Directors

MEWilliams

M E Williams
Director

9 June 2017

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Halifax Financial Services (Holdings) Limited, a limited liability company domiciled and incorporated in the United Kingdom.

The Company is a wholly owned subsidiary of HBOS Financial Services Limited, which is in turn wholly owned by Scottish Widows Financial Services Holdings Limited. The Company's ultimate parent company and ultimate controlling party is LBG.

Results and dividend

The result of the Company for the year ended 31 December 2016 is a profit before tax of £31,209k (2015: £7,615k), and this has been transferred to reserves.

The 2016 result reflects the receipt of dividends of £32,000k (2015: £15,000k) from one of the Company's subsidiaries.

An interim dividend of £30,000k (2015: £67,000k) was paid during the year. The Directors do not recommend the payment of a final dividend (2015: £nil).

Directors

The names of the current Directors are listed on page 3. Changes in the directors during the year and up to the date of signing are as follows:

J E Clatworthy	(resigned 29 February 2016)
M E Williams	(appointed 10 March 2016)
S W Lowther	(appointed 28 June 2016)
J M Black	(resigned 29 June 2016)

Particulars of the Directors' emoluments are set out in note 14.

Directors' indemnities

LBG 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. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. 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 LBG. In addition, the Company has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditors

Each person who is a Director at the date of approval 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 each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given, and should be interpreted in accordance with, the provisions of the Companies Act 2006.

Future developments

Details of future developments are provided in the Strategic Report.

Financial risk management

Disclosures relating to financial risk management are included in note 13 to the financial statements and are therefore incorporated into this report by reference.

DIRECTORS' REPORT (CONTINUED)

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 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.

Each of the Directors whose names are listed on page 3 confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit/loss of the Company; and
- the Strategic Report on page 4 and the Directors' Report on pages 5 to 6, include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board of Directors

M Williams

M E Williams
Director

9 June 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HALIFAX FINANCIAL SERVICES (HOLDINGS) LIMITED

Report on the financial statements

Our opinion

In our opinion, Halifax Financial Services (Holdings) 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 Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Income Statement for the year then ended;
- the Statement of Cash Flows 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 matters 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have 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 Strategic Report and 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 MEMBERS OF HALIFAX FINANCIAL SERVICES (HOLDINGS) LIMITED (CONTINUED)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & 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 Strategic Report and Directors' Report, we consider whether those reports include 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

9 June 2017

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Finance income	2	9	115
Investment income	3	32,000	15,000
Total income		**32,009**	**15,115**
Other expenses	5	(800)	(7,500)
Total expenses		**(800)**	**(7,500)**
Profit before tax		**31,209**	**7,615**
Taxation	6	(2)	(23)
Profit for the year		**31,207**	**7,592**

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

The notes set out on pages 13 to 22 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
ASSETS			
Non-current assets			
Investments in subsidiaries	7	207,315	208,115
Deferred tax asset	8	1	1
Current assets			
Cash and cash equivalents	9	3,602	1,616
Total assets		**210,918**	**209,732**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent			
Share capital	10	-	-
Retained earnings		210,916	209,709
Total equity		**210,916**	**209,709**
Current liabilities			
Current tax payable	8	2	23
Total liabilities		**2**	**23**
Total equity and liabilities		**210,918**	**209,732**

The notes set out on pages 13 to 22 are an integral part of these financial statements.

The financial statements on pages 9 to 22 were approved by the Board of Directors on 09 June 2017, and signed on their behalf by

M E Williams
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit before tax		31,209	7,615
Adjustments for:			
Finance income	2	(9)	(115)
Investment income	3	(32,000)	(15,000)
Impairment in investments in subsidiaries	7	800	7,500
Net movement in operating assets and liabilities	11	-	(1)
Tax paid		(23)	(2)
Net cash flows used in operating activities		(23)	(3)
Cash flows from investing activities			
Interest received	2	9	115
Increase in investments in subsidiaries	7	-	(2,000)
Dividends received		32,000	67,000
Net cash flows generated from investing activities		32,009	65,115
Cash flows from financing activities			
Dividends paid	12	(30,000)	(67,000)
Net cash outflows from financing activities		(30,000)	(67,000)
Net increase/(decrease) in cash and cash equivalents		1,986	(1,888)
Cash and cash equivalents at the beginning of the year		1,616	3,504
Net cash and cash equivalents at the end of the year	9	3,602	1,616

The notes set out on pages 13 to 22 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2015	-	269,117	269,117
Profit for the year and total comprehensive income	-	7,592	7,592
Dividend paid		(67,000)	(67,000)
Balance as at 31 December 2015	-	209,709	209,709
Profit for the year and total comprehensive income	-	31,207	31,207
Dividend paid	-	(30,000)	(30,000)
Balance as at 31 December 2016	-	210,916	210,916

All of the above amounts are attributable to the owner of the parent of the company.

The notes set out on pages 13 to 22 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

1. Accounting policies

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

a) Basis of preparation

The financial statements have been prepared:

(1) in accordance with the International Accounting Standards ("IASs") and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and the Standards and Interpretations ("SICs") and International Financial Reporting Interpretations ("IFRICs") issued by its IFRS Interpretations Committee, as endorsed by the European Union;

(2) in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs;

(3) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities, as set out in the relevant accounting policies.

In accordance with IAS 1 "Presentation of Financial Statements", assets and liabilities in the balance sheet are presented in accordance with management's estimated order of liquidity. Analysis of the assets and liabilities of the Group and Company into amounts expected to be received or settled within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

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

As the Company is a wholly owned subsidiary undertaking of LBG, registered in the United Kingdom, the Company has taken advantage of the exemption under Section 400 of the Companies Act 2006 and has not produced consolidated financial statements.

Standards and interpretations effective in 2016

The Company has not adopted any new standards, amendments to standards or interpretations of published standards which became effective for financial years beginning on or after 1 January 2016, which have had a material impact on the Company.

Details of standards and interpretations in issue but which have not been adopted early are set out at note 15.

b) Revenue recognition

Finance income

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

Investment income

Dividends are recognised in the period in which the right to receive payment is established, within investment income.

c) Expense recognition

Operating expenses

Operating expenses are recognised in the statement of comprehensive income in the period in which they accrue.

d) Impairment

Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

1. Accounting policies (continued)

d) Impairment (continued)

Impairment process

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

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract;
(iii) the disappearance of an active market for that asset because of financial difficulties; or
(iv) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including:
- adverse changes in the payment status of issuers or debtors; or
- national or local economic conditions that correlate with defaults on the assets in the Company.

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

e) Taxes

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

Current tax

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

Deferred tax

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 for financial reporting purposes at the reporting date. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. The amount of deferred tax provided is based upon the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

f) Cash and cash equivalents

Cash and cash equivalents relates to investments in a liquidity fund.

g) Investment in subsidiaries

The Company owns a number of subsidiaries, as set out in note 7. These subsidiary companies trade with a view to making a profit, and the risks and rewards of owning these subsidiaries primarily rest with the shareholder of the Company. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company's impairment policy is set out in section (d).

h) Share capital

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

1. Accounting policies (continued)

i) Critical accounting estimates and judgments in applying accounting policies

The Company's management makes estimates and judgments that affect the reported amount of assets and liabilities. Estimates and judgments are continually evaluated and 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.

In preparing these financial statements in 2016 impairment charges totalling £0.8m (2015: £7.5m) were recognised against the carrying value of subsidiaries in order to reduce the carrying values to the subsidiary net asset values; £0.7m against Halifax Financial Brokers Limited and £0.1m against Clerical Medical Investment Fund Managers Limited (2015: £6.9m against Halifax Financial Brokers Limited and £0.6m against Halifax Investment Services Limited).

2. Finance income

	2016 £000	2015 £000
Interest on investment in Aberdeen Liquidity Fund (Lux)	9	115
Total	**9**	**115**

3. Investment income

	2016 £000	2015 £000
Dividends income	32,000	15,000
Total	32,000	15,000

4. Operating expenses

No staff are employed directly by the Company (2015: nil). All staff providing services to the Company are employed by other subsidiaries of LBG.

5. Other expenses

	2016 £000	2015 £000
Impairment in subsidiaries	800	7,500
Total	800	7,500

In 2016 impairment charges totalling £0.8m (2015: £7.5m) were recognised against the carrying value of subsidiaries in order to reduce the carrying values to the subsidiary net asset values: £0.7m against Halifax Investment Services Limited and £0.1m against Clerical Medical Investment Fund Managers Limited (2015: £6.9m against Halifax Financial Brokers Limited and £0.6m against Halifax Investment Services Limited).

Audit fees for 2015 and 2016 were borne by another company within the group and were not recharged to the Company. The fees payable in respect of the audit of the statutory financial statements of the Company are £6k (2015: £6k). There were no fees relating to non-audit services paid to the Auditors during the year (2015: £nil).

6. Taxation

(a) Current year tax charge

	2016 £000	2015 £000
Current tax:		
UK corporation tax	2	23
Total current tax	2	23

(b) Reconciliation of tax charge

	2016 £000	2015 £000
Profit before tax	31,209	7,615
Tax at 20% (2015: 20.25%)	6,242	1,542
Effects of:		
Non taxable items	(6,240)	(1,519)
Total	2	23

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6. Taxation (continued)

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.

7. Investments in subsidiaries

	2016 £000	2015 £000
Shares in group undertakings		
Beginning of year	208,115	213,615
Capital injection	-	2,000
Impairment in subsidiaries	(800)	(7,500)
End of year	207,315	208,115

In 2016, impairment charges totalling £0.7m were recognised against Halifax Investment Services Limited and £0.1m against Clerical Medical Investment Fund Managers Limited due to losses incurred in 2016.

The Company owns the whole of the issued or ordinary share capital of the following subsidiaries at the reporting date, all of which operate in the United Kingdom.

Name	Class of stock	Percentage held	Country of incorporation	Nature of business
Halifax Financial Services Limited	Ordinary	100	England & Wales	Service Company
Halifax Financial Brokers Limited	Ordinary	100	England & Wales	Financial Adviser Company
Halifax Investment Services Limited	Ordinary	100	England & Wales	Management of closed book of PEPs and ISAs
HBOS Investment Fund Managers Limited	Ordinary	100	England & Wales	OEIC Management Company
Clerical Medical Investment Fund Managers Limited	Ordinary	100	England & Wales	OEIC Management Company
Halifax Equitable Limited	Ordinary	100	England & Wales	Dormant

Registered Addresses of all subsidiaries:
Trinity Road, Halifax, West Yorkshire, HX1 2RG

8. Tax assets and liabilities

	2016 £000	2015 £000
Deferred tax asset	1	1
Total tax asset	1	1
Current tax payable	2	23
Total tax liabilities	2	23

9. Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows include the following:

	2016 £000	2015 £000
Investment in Aberdeen Liquidity Fund (Lux)	3,602	1,616
Total	3,602	1,616

The Aberdeen Liquidity Fund (Lux) is an unlisted collective investment scheme reported within cash and cash equivalents due to the short term, highly liquid nature of the underlying investments in the scheme. Further information in respect of investment in Aberdeen Liquidity Fund (Lux) is given in note 14.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

10. Share capital

	2016 £000	2015 £000
Authorised share capital		
300,000,000 (2015: 300,000,000) shares of £1 each	300,000	300,000
Allotted, called up and fully paid share capital		
1 (2015: 1) share of £1 each	-	-

All shares rank equally with regard to the Company's residual assets.

11. Net movement in operating assets and liabilities

	2016 £000	2015 £000
Decrease in operating assets:		
Amounts due to/from Group undertakings	-	(1)
Net decrease in operating assets	-	(1)
Net movement in operating assets and liabilities	-	(1)

12. Dividends

	2016 £000	2015 £000
Total dividends paid on equity shares	30,000	67,000

The dividend paid amounts to £30m per share in issue at the date of payment (2015: £67m). No final dividend is proposed in respect of the year ended 31 December 2016 (2015: nil).

13. Risk management

The principal activity of the Company is to operate as an intermediate holding company for investment companies within HBOS Financial Services Limited, the Company's immediate parent undertaking.

This note summarises the risks associated with the Company's business and the way in which the Company manages them.

(a) Governance framework

The company is part of LBG, which has established a risk management function with responsibility for implementing the LBG risk management framework within LBG. LBG's Insurance Division comprises all legal entities involved in the sale or management of insurance, pension and investment products as well as the related holding and service companies. As part of the Insurance Division, the Company is overseen by the Insurance Board and Insurance Audit Committee. Use of the terms "the Board" and "the Audit Committee" throughout this note refers to the responsibilities and actions carried by the Insurance Division Board and Audit Committee with involvement of the Company Board where required.

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Company is exposed to, with risks categorised according to an approved LBG risk language. This covers the principal risks faced by the Company, including the exposures to market, credit, liquidity, capital, operational, conduct, financial reporting and governance risks. The performance of the Company and the strategic management of the business depend on its ability to manage these risks.

Responsibility for the management of risk resides with the Board of each company. The Board manages risks in line with LBG and Insurance risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee ("IROC") with the operational implementation of these being assigned to the Insurance Risk Committee ("IRC").

The risk management approach aims to ensure effective independent checking or "oversight" of key decisions by operating a "three lines of defence" model. The first line of defence is line management, who have direct accountability for risk decisions. The Risk function provides oversight and challenge and is the second line of defence. Internal Audit, the third line of defence, provide independent assurance to the Insurance Audit Committee and Insurance Board that risks are recognised, monitored and managed within acceptable parameters.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

13. Risk management (continued)

(a) Governance framework (continued)

Policy owners, identified from appropriate areas of the LBG and Insurance business, are responsible for drafting risk policies, for ensuring that they remain up-to-date and for facilitating any changes. Policies are subject to at least an annual review. Limits are prescribed within which those responsible for the day to day management of each Company can take decisions. Line management are required to follow prescribed reporting procedures to the bodies responsible for monitoring compliance with policy and controlling the risks.

b) Risk appetite

Risk appetite is the amount and type of risk that the Insurance Board is prepared to seek, accept or tolerate and is fully aligned to Insurance and LBG strategy. The Insurance Board has defined a framework for the management of risk appetite and approved a set of risk appetite statements that cover financial risks, operational risks, people risk, conduct risk, regulatory and legal risks, financial reporting risk and governance risk. The risk appetite statements set limits for exposures to the key risks faced by the business. Risk appetite is reviewed at least annually by the Insurance Board. Risk appetite is set at an Insurance level.

Experience against risk appetite is reported monthly (by exception) and quarterly (in full) to IRC, quarterly (by exception) to IROC and bi-annually (by exception) to the Insurance Board. Copies are also supplied regularly to the regulators as part of the close and continuous relationship. Reporting focuses on ensuring and demonstrating to the Insurance Board, and their delegate IROC, that Insurance is run in line with approved risk appetite. Any breaches of risk appetite require clear plans and timescales for resolution.

c) Financial risks

During the year, the Company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of financial risk are credit, market, capital and liquidity risks.

The Company manages these risks in a numbers of ways, including risk appetite assessment and monitoring of capital resource requirements.

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies (note 1) describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

(1) Market risk

Market risk is defined as the risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and/or value.

All of the financial assets of the Company which are measured at fair value, which relate to investments in liquidity funds of £3,602k (2015: £1,616k), are classified in level 1 of the IFRS 7 fair value hierarchy.

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk arises in respect of cash balances which are either held on deposit or invested in a cash fund and also in respect of any overdrawn bank balances. None of the other financial assets or financial liabilities of the Company are interest-bearing.

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

The Company is not exposed to equity and property risk or foreign exchange risk.

(2) Credit risk

Credit Risk is defined as the risk that parties with whom the Group has contracted fail to meet their financial obligations (both on or off balance sheet).

Credit risk is managed in line with the Insurance Credit Risk Policy and the wider LBG Credit Risk Policy.

Credit risk is not considered to be significant to the Company as cash is invested in Aberdeen Asset Management plc which has a Standard & Poor's rating of AAA.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

13. Risk management (continued)

(3) Liquidity risk

Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from the inability to generate cash inflows as anticipated.

Liquidity risk is managed in line with the Insurance Liquidity Risk Policy and the wider LBG Funding and Liquidity Risk Policy.

Liquidity risk has been analysed as arising from the settlement of balances owed to other group undertakings of £nil (2015: £nil). These amounts are contractually due within one month from the reporting date.

(4) Capital risk

Capital risk is defined as the risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Group.

The Company's objectives when managing capital are:

- to have sufficient capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders; and
- when capital is needed, to require an adequate return to the shareholder by pricing contracts according to the level of risk associated with the business written.

The Company's capital comprises all components of equity, movements in which are set out in the statement of changes in equity.

(5) Risks associated with investment in subsidiaries

The Company owns various subsidiary undertakings, the carrying values of which are assessed for reasonableness at least once in each financial year. Any impairment in the value of these investments could result in a significant financial exposure of the Company. The underlying activity in the subsidiary undertakings is regularly monitored and any implications on the financial position of the Company assessed. All subsidiaries of the Company are managed in accordance with LBG risk policies to mitigate against any unforeseen circumstances.

d) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. There are a number of secondary categories of operational risk including the undernoted:

Financial crime and fraud risk

Financial crime concerns activity related to money laundering, sanctions, terrorist financing and bribery. Fraud covers acts intended to defraud, misappropriate property or circumvent the law. These activities could give rise to risk of reduction in earnings and/or value, through financial or reputational loss. Losses may include censure, fines or the cost of litigation.

Information security and physical security risk

Information security risk relates to the risk of reductions in earnings and/or value, through financial or reputational loss, resulting from theft of or damage to the security of the Company's information and data. Physical security risk relates to the risk to the security of people and property.

Change risk

Change risk is related to the management of change - designing and implementing key projects or programme. Potential loss could arise from failure requirements, budget or timescale; failure to implement change effectively; or failure to realise desired benefits.

IT Systems risk

The risk of reductions in earnings and/or value through financial or reputational loss resulting from the failure to develop, deliver or maintain effective IT solutions. The Directors have embedded a risk framework and monitor the effective operation of this across the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

13. Risk management (continued)

e) Regulatory and Legal risk

Regulatory and legal risk is defined as the risk that the Company is exposed to fines, censure, legal or enforcement action, civil or criminal proceedings in the courts (or equivalent) and risk that the Company is unable to enforce its rights as anticipated.

Regulators aim to protect the rights of customers, ensuring firms satisfactorily manage their affairs for the benefit of customers and that they retain sufficient capital and liquidity. The Company has embedded a risk framework to closely monitor and manage its legal and regulatory risks, and maintains regular interaction with its regulators.

f) Financial reporting risk

Financial reporting risk is defined as the risk that the Company suffers reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial and regulatory reporting, failure to manage the associated risks of changes in taxation rates, law, ownership or corporate structure and the failure to disclose accurate and timely information.

g) Governance risk

Governance risk is defined as the risk that the Company's organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

14. Related party transactions

a) Ultimate parent and shareholding

The Company's immediate parent undertaking is HBOS Financial Services Limited, a Company registered in the United Kingdom. HBOS Financial Services Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

The parent undertaking which is the parent undertaking of the smallest group to consolidate these financial statements is Lloyds Bank plc. Copies of the consolidated annual report and financial statements of Lloyds Bank plc may be obtained from Insurance Secretariat, 69 Morrison Street, Edinburgh EH3 8YF.

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

b) Transactions and balances with related parties

Transactions between the Company and other companies in the LBG

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

	2016			
	Income during period £000	**Dividends paid during period £000**	**Payable at period end £000**	**Receivable at period end £000**
Relationship				
Subsidiaries	32,000	-	-	-
Parent	-	30,000	-	-

	2015			
	Income during period £000	**Dividends paid during period £000**	**Payable at period end £000**	**Receivable at period end £000**
Relationship				
Subsidiaries	15,000	-	-	-
Parent	-	67,000	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

14. Related party transactions (continued)

Liquidity Fund

During 2015, the Aberdeen Global Liquidity Fund plc ("GLF") was a managed investment fund (Collective Investment Scheme) investing in short term highly liquid investments and was managed by Aberdeen Asset Management plc. LBG held a controlling interest in the fund at 31 December 2015, and consolidated it as a subsidiary under IFRS 10. As a fellow group undertaking, the GLF was therefore a related party of the Company.

On the 15 July 2016 the GLF was transferred into the Aberdeen Liquidity Fund (Lux) ("ALF"). At 31 December 2016 the Company's ultimate parent company held a controlling interest in the ALF. Under IFRS 10, the ALF is a fellow group undertaking and therefore a related party of the Company.

At 31 December 2016 the Company held investment in the liquidity fund of £3,602k (2015: £1,616k). Investment income of £9k (2015 £115k) received from the liquidity fund is included in investment income.

Transactions between the Company and key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are the Directors.

Transactions between the key management personnel of the Company and parties related to them as defined by IAS 24 are as follows:

Key management compensation

The Directors consider that they receive no remuneration for their services to the Company.

15. Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2016 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 9 "Financial Instruments"	Replaces IAS 39 "Financial Instruments: Recognition and Measurement." Classification 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 or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit and loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. The Company has undertaken an assessment to determine the potential impact of changes in classification and measurement of financial assets. The adoption of IFRS 9 is unlikely to result in significant changes to existing asset measurement bases, however, the final impact will be dependent on the facts and circumstances that exist on 1 January 2018. IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income.	Annual periods beginning on or after 1 January 2018

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

15. Future accounting developments (continued)

Pronouncement	Nature of change	IASB effective date
IFRS 9 "Financial Instruments" continued	Impairment The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantees not measured at fair value through profit or loss. IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss ('ECL') model, resulting in earlier recognition of credit losses compared with IAS 39. Expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39. The requirement to recognise lifetime ECL for loans which have experienced a significant increase in credit risk since origination, but which are not credit impaired, does not exist under IAS 39. The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, not the change in the amount of expected credit losses. This will involve setting quantitative tests combined with supplementary indicators such as credit risk classification. Reasonable and supportable forward looking information will also be used in determining the stage allocation. Any asset more than 30 days past due, but not credit impaired, will be classed as stage 2. Whilst LBG is still refining its methodology and completing the development of the models required to calculate the provision, it is not possible to provide a reliable estimate of the impact of adopting IFRS 9. However, IFRS 9 is not expected to have a significant financial impact on the financial results or position of the Company.	Annual periods beginning on or after 1 January 2018
IFRS 15 "Revenue from Contracts with Customers" [1]	Replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts". IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. There are no contracts with customers and so this standard is not expected to have a significant impact on the financial results or position of the Company.	Annual periods beginning on or after 1 January 2018
Minor amendments to other accounting standards [1]	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. These revised requirements are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2017 or 2018

[1] At the date of this report, these pronouncements are awaiting EU endorsement.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.

16. Events after the reporting date

There are no events after the reporting date that require disclosure in these Financial Statements.