PORTLAND FUNDING LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2013

Company No. 4570082

Incorporated in England and Wales

PORTLAND FUNDING LIMITED

REPORT AND ACCOUNTS
For the year ended 31 December 2013

Registered in England and Wales No. 4570082

Registered office: 25 Gresham Street, London, EC2V 7HN.

DIRECTORS

R.G.M. Conway
A.K. Goldsmith
J.S.Foster
P.N. Pitale

CONTENTS

PORTLAND FUNDING LIMITED ("the Company")

STRATEGIC REPORT
For the year ended 31 December 2013

PRINCIPAL OBJECTIVES AND STRATEGIES

The Company's principal activity is to carry on the business of an investment holding company. There have been no changes in the nature of the Company's operations during the year and no change to the Company's business is expected in the foreseeable future even as some of its subsidiaries have been placed into members' voluntary liquidation in 2014.

PERFORMANCE REVIEW

The profit for the year of £25,770,000 (2012: loss of £39,582,000) is set out in the Statement of Comprehensive Income on page 8. No dividend has been proposed or paid for the year ended 31 December 2013 (2012: £nil).

Total assets as at 31 December 2013 were £3,187,627,000 (2012: £3,191,092,000) with net liabilities of £3,674,000 (2012: £29,444,000).

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Lloyds Banking Group plc and are not managed separately. Full disclosure of the Company's financial risk management objectives and policies are given in note 11 to the financial statements.

KEY PERFORMANCE INDICATORS ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2013.

DIRECTORS

The names of the directors of the Company, all of whom served throughout the year and up to the date of signing the financial statements are shown on page 1.

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the Directors of the Company, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 December 2013

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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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. 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.

Each of the directors, whose names are listed in page 1 confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the directors' report contained above includes 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.

GOING CONCERN

The Company is reliant on funding provided by Lloyds Bank plc (formally Lloyds TSB Bank plc) which is a subsidiary of Lloyds Banking Group plc. 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.

EVENTS AFTER BALANCE SHEET

As no future developments have been identified, the Company has passed resolutions to place its subsidiaries into members' voluntary liquidation including 100% direct subsidiaries Coleman Staffordshire Funding Limited on 8 April 2014 and both Eastcheap Funding Limited and Vintry Holding (UK) Limited on 22 April 2014. As preparatory steps ahead of the voluntary liquidation, dividends have been paid of £1,254,382 on 10 February 2014 by Coleman Staffordshire Funding Limited and £2,791,331 and £2,982,077 on 17 March 2014 by Eastcheap Funding Limited and Vintry Holding (UK) Limited respectively.

On 19 March 2014, Paul Gittins has been appointed as the Company secretary.

PORTLAND FUNDING LIMITED

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 December 2013

INDEPENDENT AUDITORS AND AUDIT INFORMATION

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 each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself 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.

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

On behalf of the board

R.G.M. Conway
DIRECTOR
Date: 3 July 2014

Company Registration No. 4570082

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PORTLAND FUNDING LIMITED

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by Portland Funding Limited, comprise:

- The Balance Sheet as at 31 December 2013;
- 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 their preparation 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PORTLAND FUNDING LIMITED (CONTINUED)

For the year ended 31 December 2013

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 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.

Stuart Scoular (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date: 4 July 2014

PORTLAND FUNDING LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Interest and similar expense	3	(16,414)	(27,918)
Net interest expense	3	**(16,414)**	(27,918)
Administrative expense	4	-	(5)
Other operating income/ (expense)	5	38,600	(18,500)
Profit/(loss) before taxation		**22,186**	(46,423)
Taxation	6	3,584	6,841
Profit/(loss) for the year		25,770	(39,582)
Total comprehensive income for the year		25,770	(39,582)

All profit/ (losses) are attributable to equity shareholders.

The notes on pages 12 to 27 form an integral part of these financial statements.

PORTLAND FUNDING LIMITED

BALANCE SHEET
As at 31 December 2013

	Note	2013 £'000	2012 £'000
Assets			
Non-current assets			
Investment in subsidiary undertakings	10	**3,171,920**	3,171,920
Total non-current assets		**3,171,920**	3,171,920
Current assets			
Current tax receivables	7	**15,706**	19,172
Total current assets		**15,706**	19,172
Total assets		**3,187,626**	3,191,092
Liabilities			
Non-current liabilities			
Amounts owed to immediate parent company	10	**1,959,845**	3,171,910
Current liabilities			
Borrowings	10	**5,808**	16,287
Amounts owed to immediate parent company	10	**1,222,086**	10,020
Amounts owed to subsidiary company	10	**-**	18,500
Other current liabilities	8	**3,561**	3,819
Total current liabilities		**1,231,455**	48,626
Total liabilities		**3,191,300**	3,220,536
Equity			
Share capital	9	**1**	1
Accumulated losses		**(3,675)**	(29,445)
Total equity		**(3,674)**	(29,444)
Total liabilities and equity		**3,187,626**	3,191,092

The directors approved the financial statements on pages 8 to 27 on 3 July 2014.

R.G.M. Conway
DIRECTOR

The notes on pages 12 to 27 form an integral part of these financial statements.

PORTLAND FUNDING LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

	Share Capital £'000	Accumulated losses £'000	Total Equity £'000
Balance at 1 January 2012	1	10,137	10,138
Loss and total comprehensive expense for the year	-	(39,582)	(39,582)
Balance at 31 December 2012	1	(29,445)	(29,444)
Profit and total comprehensive income for the year	-	25,770	25,770
Balance at 31 December 2013	1	(3,675)	(3,674)

The notes on pages 12 to 27 form an integral part of these financial statements.

PORTLAND FUNDING LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities			
Profit / (Loss) before taxation		**22,186**	(46,423)
Adjustment for:			
Interest expense	3	**16,414**	27,918
Other operating income (expense)	5	**(38,600)**	18,500
Cash used in operating activities		**-**	(5)
(Decrease) / Increase in other current liabilities	8	**(20)**	5
Taxation received/(paid)		**7,051**	(4,274)
Net cash generated from / (used in) operating activities		**7,031**	(4,274)
Cash flows from investing activities			
Repayment by immediate parent company	10	**-**	120,119
Dividend received	5	**38,600**	-
Dividend repayments to subsidiary company	10	**(18,500)**	-
Net cash generated from investing activities		**20,100**	120,119
Cash flows from financing activities			
Interest paid		**(16,653)**	(31,155)
Advances from immediate parent company	10	**10,022**	-
Repayments to immediate parent company	10	**(10,021)**	(120,119)
Net cash used in financing activities		**(16,652)**	(151,274)
Net increase/(decrease) in cash and cash equivalents		**10,479**	(35,429)
Cash and cash equivalents at beginning of the year		**(16,287)**	19,142
Cash and cash equivalents at end of the year	10	**(5,808)**	(16,287)

The notes on pages 12 to 27 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis under the historical cost convention, in compliance with the requirements of the Companies Act 2006 and in accordance with the applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union.

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

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 exemption under IAS 27 Consolidated and Separate Financial Statements 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 preparation of the financial statements necessarily requires the exercise of judgment both in the application of accounting policies which are set out in the sections below and in the selection of assumptions used in the calculation of estimates. These estimates and judgments are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. Actual results may differ from these estimates.

The following pronouncements were effective during the year December 2013 and relevant to the Company:

Pronouncement	Nature of change	IASB effective date
Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting	This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.	1 January 2013.
IFRS 12 Disclosure of Interests in other entities	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.	1 January 2013.
IFRS 13, 'Fair Value Measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	1 January 2013.

1. ACCOUNTING POLICIES (CONTINUED)

Amendment to IFRSs 10, 11 and 12 on transition guidance	These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.	1 January 2013
Annual improvements 2011	These annual improvements, address six issues in the 2009 2011 reporting cycle. It includes changes to: • IFRS 1, 'First time adoption' • IAS 1, 'Financial statement presentation' • IAS 16, 'Property plant and equipment' • IAS 32, 'Financial instruments; Presentation' • IAS 34, 'Interim financial reporting'	1 January 2013
IFRS 10, 'Consolidated financial statements'	IFRS 10, 'Consolidated financial statements' The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

The following pronouncements were effective during the year December 2013 but not relevant to the Company:

Pronouncement	Nature of change	IASB effective date
Amendment to IFRS 1, 'First time adoption', on hyperinflation and fixed dates	The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.	1 July 2011 (EU endorsed from 1 January 2013, although early adoption is permitted)
Amendment to IFRS 1, 'First time adoption', on government loans	This amendment addresses how a first time adopter would account for a government loan with a below market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.	1 January 2013
Amendment to IAS 12, 'Income taxes', on deferred tax	Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes recovery of revalued non depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn	1 January 2012 (EU endorsed from 1 January 2013, although early adoption is permitted)

1. ACCOUNTING POLICIES (CONTINUED)

Amendment to IAS 19, 'Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis	1 January 2013
IFRS 11, 'Joint arrangements'	IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)
IAS 28 (revised 2011), 'Associates and joint ventures'	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body.	1 January 2013

The following pronouncements will be relevant to the Company but were not effective as at 31 December 2013:

Pronouncement	Nature of change	IASB effective date
Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting	These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures	This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.	1 January 2014 (not EU endorsed at the time of going to print)

1. ACCOUNTING POLICIES (CONTINUED)

IFRS 9, 'Financial instruments'	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. IFRS 9 requires financial assets to be classified into two measurement categories, fair value 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 and eliminates the available for sale financial asset and held to maturity investment categories in IAS 39. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach. IFRS 9 is the standard which will replace IAS 39. Further changes to IFRS 9 are expected dealing with impairment of financial assets measured at amortised cost, which will be based on expected rather than incurred credit losses, and limited amendments to classification and measurement which include the introduction of a third measurement category, fair value through other comprehensive income. Until the standard is complete, it is not possible to determine the overall impact of the standard on the financial statements.	As at 5 March 2014, these pronouncements are awaiting EU endorsement.

1. ACCOUNTING POLICIES (CONTINUED)

Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities	These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.	1 January 2014 (not EU endorsed at the time of going to print)

The following pronouncements will not be relevant to the Company and were not effective as at 31 December 2013:

Pronouncement	**Nature of change**	**IASB effective date**
IFRIC 21, 'Levies'	This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.	1 January 2014 (not EU endorsed at the time of going to print)
Financial Instruments: Recognition and Measurement Amendment to IAS 39 'Novation of derivatives'	This amendment provides relief from discontinuing hedge accounting when novation to a hedging instrument to a central counter party meets specified criteria.	1 January 2014 (not EU endorsed at time of going to print).

(a) Revenue recognition

Interest income and expense are recognised in the Statement of Comprehensive Income for all interest–bearing financial instruments, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly 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. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. Fees and commissions, which are not an integral part of the effective interest rate, are generally recognised when the service has been provided. Coupon or dividends received on investment in irredeemable shares, which carry a mandatory coupon, are recognised in the Statement of Comprehensive Income as interest income.

(b) Income taxes, including deferred income taxes

Current income tax which is payable on taxable profits is recognised as an expense in the year in which the profits 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 Company's financial statements. Deferred tax is determined using tax rates that have been enacted or announced 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

(c) Cash and cash equivalents
Cash and cash equivalents comprises cash on hand and demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, less bank overdrafts.

(d) Loans and receivables
Loans and receivables are accounted for at amortised cost using the effective interest method. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs.

(e) Investments in subsidiaries
Investments in subsidiaries are carried on the balance sheet at cost less impairment. At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that the investment in subsidiary has become impaired. If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the recoverable amount.

(f) Borrowings
Borrowings are stated at amortised cost using the effective interest method and are classified as financial liabilities. The coupon paid on these instruments is recognised in the statement of comprehensive income as interest expense.

(g) Dividend receivable and payable
Dividends on ordinary and preference shares treated as equity are recognised in equity in the year in which they are paid. Dividends in respect of investment in ordinary shares are recognised as income in the year in which they are received.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes assumptions and estimates that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The accounting policies deemed critical to the Company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

Impairment of investment in subsidiary undertakings
The Company determines that the investment in subsidiary is impaired when the present value of the subsidiary's estimated future cash flows do not exceed its recoverable amount. The Company evaluates whether there has been impairment by assessing whether there has been any deterioration in the net asset values, sales and other performance indicators and considering the operating cash flows of the relevant investments.

3. NET INTEREST EXPENSE

	2013 **£'000**	2012 £'000
Interest Expense		
Amount owed to immediate parent company (note 10)	**(16,289)**	(27,710)
Amount owed to subsidiary company (note 10)	**(22)**	-
Cash balance with immediate parent company (note 10)	**(104)**	(208)
	(16,415)	(27,918)
Net interest expense	**(16,415)**	(27,918)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

4. ADMINISTRATIVE EXPENSE

	2013 £'000	2012 £'000
Statutory audit fee	-	5
	-	5

Audit fees of £5,000 for the year are borne by Lloyds Bank plc. The number of persons employed by the Company during the year was nil (2012: nil).

5. OTHER OPERATING INCOME (EXPENSE)

	2013 £'000	2012 £'000
Dividend received from (paid to) subsidiary (note 10)	38,600	(18,500)
	38,600	(18,500)

On 28 March 2013, the Company returned an amount of £18,500,000 to Vintry Holdings (UK) Ltd representing a component of a dividend originally received in December 2010 where, following review it was determined that Vintry Holdings (UK) Ltd did not have sufficient retained earnings

On 5 August 2013, the Company received £20,000,000 dividends from Lovat Funding Holdings (UK) Ltd and £18,600,000 from Vintry Holdings (UK) Ltd.

6. TAXATION

(a) Analysis of taxation for the year

	2013 £'000	2012 £'000
UK Corporation tax - current year	3,815	6,841
UK Corporation tax - prior year adjustments	(231)	-
Total taxation credit for the year	3,584	6,841

The tax credit on the Company's profit (2012: loss) for the year is based on a UK corporation tax rate 23.25% (2012: 24.5%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

6. TAXATION (CONTINUED)

(b) Factors affecting the tax credit for the year

A reconciliation of the tax credit that would result from applying the standard UK corporation tax rate to profit (2012: loss) before tax to the tax credit for the year is given below:

	2013 £'000	2012 £'000
Profit/(loss) before taxation	22,186	(46,423)
Tax credit/(charge) thereon at UK corporation tax rate of 23.25% (2012: 24.5%)	(5,158)	11,374
Factors affecting credit:		
Prior year adjustments	(231)	-
Non-taxable dividend repayment	8,973	(4,533)
Total taxation	3,584	6,841
Effective rate	(16.2)%	(14.7)%

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24 per cent to 23 per cent with effect from 1 April 2013. In addition, the Finance Act 2013, which was substantively enacted on 2 July 2013, included legislation to reduce the main rate of corporation tax 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015.

7. CURRENT TAX RECEIVABLES

	2013 £'000	2012 £'000
Corporation tax receivable - group relief	15,706	19,172
	15,706	19,172

8. OTHER CURRENT LIABILITIES

	2013 £'000	2012 £'000
Interest payable on loans from immediate parent company (note 10)	3,561	3,799
Sundry amounts payable to immediate parent company (note 10)	-	20
	3,561	3,819

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

9. SHARE CAPITAL

	2013 £'000	2012 £'000
Authorised		
1,000 (2012: 1,000) ordinary shares of £1 each	1	1
	1	1

	As at 2013 Number of shares	As at 2012 Number of shares	As at 2013 £'000	As at 2012 £'000
Issued and fully paid:				
Ordinary shares of £1 each				
At the beginning and end of the year	1,000	1,000	1	1

10. RELATED PARTY TRANSACTIONS

The Company's immediate parent company is Lloyds Bank plc. The Company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc, which is 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 group financial statements of both may be obtained from the Company secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The Company's related parties include its ultimate parent company, fellow subsidiaries and the Company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's directors.

Transactions with key management personnel
There were no transactions between the Company or its subsidiaries with key management personnel during the current year. Key management personnel are employed by other companies in the Lloyds Banking Group and consider that their services to the Company are incidental to their other activities within the Group.

Other transactions with subsidiary company

	2013 £'000	2012 £'000
Other operating (income) / expense (note 5)	(38,600)	18,500
Representing:		
Vintry Holdings (UK) Ltd	(18,600)	18,500
Lovat Funding Holdings (UK) Ltd	(20,000)	-
	(38,600)	18,500

Amounts owed by immediate parent company

	2013 £'000	2012 £'000
At beginning of the year	-	120,119
Repayments during the year	-	(120,119)
At end of the year	-	-
Representing:		
Lloyds Bank plc	-	-

The interest free loan balance of £120,118,790 in 2012 was used to reduce the Company's interest-bearing funding.

10. RELATED PARTY TRANSACTIONS (CONTINUED)

Investment in subsidiary undertakings

	2013	2012
	£'000	£'000
At beginning and end of the year	3,171,920	3,171,920
Represented by:		
Non-current	3,171,920	3,171,920
Current	-	-
	3,171,920	3,171,920

				2013	2012
				£'000	£'000
Representing:					
Company name	****Class**	**Number Held**	**%Held**		
Eastcheap Funding Ltd *	£1 Ord	129,738,489	100	**130,181**	130,181
Lovat Funding Holdings (UK) Ltd	£0.01 Ord	1,091,296,800	100	**1,091,297**	1,091,297
Vintry Holdings (UK) Ltd *	£0.01 Ord	1,081,883,900	100	**1,081,884**	1,081,884
Cheshire Holdings Europe Ltd	US$1 Ord	10	100	-	-
Cheshire Holdings Europe Ltd	US$0.01 Red	100,000	100	**868,547**	868,547
Coleman Staffordshire Funding Ltd *	£1 Ord	1,000	100	**1**	1
Horsham Investments Ltd	£1 Ord	10,000	100	**10**	10
				3,171,920	3,171,920

* Company has commenced voluntary liquidation proceedings
** Class - Ordinary (Ord)
- Redeemable (Red)

Company name	**Country of incorporation**	**Nature of business**
Eastcheap Funding Limited	England and Wales	Finance, investment and investment holding company
Lovat Funding Holdings (UK) Limited	England and Wales	Finance, investment and investment holding company
Vintry Holdings (UK) Limited	England and Wales	Finance, investment and investment holding company
Cheshire Holdings Europe Limited	Jersey	Investment company
Coleman Staffordshire Funding Limited	England and Wales	Investment company
Horsham Investments Limited	England and Wales	Investment holding company

No impairment has arisen and accordingly, no provision has been recognised.

The directors expect that the Company's 100% direct subsidiaries Coleman Staffordshire Funding Limited, Eastcheap Funding Limited and Vintry Holdings (UK) Limited will be liquidated during 2014, and has thus been reclassified from a non-current asset to a current asset.

Other investments
The Company holds 1 Preference Share of £100 in Lloyds Bank Financial Services (Holdings) Ltd. This share holds no voting rights and is treated as a debt instrument.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

10. RELATED PARTY TRANSACTIONS (CONTINUED)

Amount owed to immediate parent company

	2013 £'000	2012 £'000
At beginning of the year	3,181,931	3,302,050
Advanced during the year	10,021	-
Repayment during the year	(10,021)	(120,119)
At end of the year	3,181,931	3,181,931
Represented by:		
Current	1,222,086	10,020
Non-current	1,959,845	3,171,910
	3,181,931	3,181,931
Representing:		
Lloyds Bank plc	3,181,931	3,181,931
Interest expense charged (note 3)	16,289	27,710
Interest payable (note 8)	3,561	3,799

The loan balance of £3,181,930,723 consists of £1,222,086,209 repayable by March 2014 and £1,959,844,514 repayable on 12 January 2015. The loans incur interest at LIBOR and have a fair value approximately equal to the carrying value at 31 December 2013.

Other transactions with immediate parent company

	2013 £'000	2012 £'000
Balance with Lloyds Bank plc:		
Bank overdraft	(5,808)	(16,287)
Sundry expenses payable (note 8)	-	20
Interest paid during the year on cash balances (note 3)	104	208

The Company paid no dividend during the year to its immediate parent company, Lloyds Bank plc (2012: £nil). Audit fees of £5,000 (2012: nil) for the year are borne by Lloyds Bank plc.

Amounts owed to subsidiary company

	2013 £'000	2012 £'000
At beginning of the year	18,500	-
Advanced during the year	-	18,500
Repayment during the year	(18,500)	-
At end of the year	-	18,500
Representing:		
Vintry Holdings (UK) Limited	-	18,500
Interest charge during the year (note 3)	22	-

On 28 March 2013, the Company returned an amount of £18,500,000 to Vintry UK representing a component of a dividend received in December 2010, where Vintry UK did not have sufficient retained earnings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2012	1 month or less £'000	3 months or less but over 1 month £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Assets:							
Non-current assets							
Investment in subsidiary undertakings	-	-	-	-	-	3,171,920	3,171,920
Current assets							
Current tax receivables	-	-	-	-	-	19,172	19,172
Total Assets	-	-	-	-	-	3,191,092	3,191,092
Liabilities:							
Non-current liabilities							
Amounts owed to immediate parent company	3,171,910	-	-	-	-	-	3,171,910
Current liabilities:							
Borrowings	16,287	-	-	-	-	-	16,287
Amounts owed to immediate parent company	-	10,020	-	-	-	-	10,020
Amounts owed to subsidiary company	-	-	-	-	-	18,500	18,500
Other current liabilities	-	-	-	-	-	3,819	3,819
Total Liabilities	3,188,197	10,020	-	-	-	22,319	3,220,536
Total interest sensitivity gap	(3,188,197)	(10,020)	-	-	-	3,168,773	(29,444)

(b) Fair Value of Financial Assets and Liabilities

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Wherever possible, fair values have been estimated using quoted market prices for instruments held. Where market prices are not available, fair values have been estimated using quoted values for instruments with either identical or similar characteristics. In certain cases, where no ready markets currently exist, various techniques (such as discounted cash flows or observations of similar recent market transactions) have been developed to estimate what the approximate fair value of such instruments might be. These estimation techniques are necessarily subjective in nature and involve several assumptions.

The fair values of all financial assets are not significantly different from the carrying values as at the balance sheet date.

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Measurement Basis of Financial Assets and Liabilities

The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

As at 31 December 2013	**Held at amortised cost £'000**	**Total £'000**
Liabilities:		
Amounts owed to immediate parent company	**3,181,931**	**3,181,931**
Borrowings	**5,808**	**5,808**
Other current liabilities	**3,561**	**3,561**
Total financial liabilities	**3,191,300**	**3,191,300**

As at 31 December 2012	Held at amortised cost £'000	Total £'000
Liabilities:		
Amounts owed to immediate parent company	3,181,930	3,181,930
Amounts owed to subsidiary companies	18,500	18,500
Bank overdraft	16,287	16,287
Other current liabilities	3,819	3,819
Total financial liabilities	3,220,536	3,220,536

(d) Credit Risk

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at the year end.

Investment in subsidiary company	**3,171,920**	3,171,920
Total credit risk exposure	**3,171,920**	3,171,920

The credit rating of the immediate parent company Lloyds Bank plc, is A1 (2012: A2) as per Moody's.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity Risk

The table below analyses liabilities of the Company on an undiscounted future cash flow basis according to contractual maturity into relevant maturity groupings based on the remaining period at the balance date; balances with no fixed maturity are included in the over 5 years category.

As at 31 December 2013	**On demand £'000**	**Up to 1 month £'000**	**1 - 3 months £'000**	**3 - 12 months £'000**	**1 - 5 years £'000**	**Over 5 years £'000**	**Total £'000**
Liabilities:							
Amounts owed to immediate parent company	-	**541**	**1,223,290**	**8,030**	**1,963,093**	-	**3,194,954**
Other current liabilities	-	**3,561**	-	-	-	-	**3,561**
Total Liabilities	-	**4,102**	**1,223,290**	**8,030**	**1,963,093**	-	**3,198,515**

As at 31 December 2012	On demand £'000	up to 1 month £'000	1 - 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Liabilities:							
Amounts owed to immediate parent company	-	4,406	12	22,055	3,175,844	-	3,202,317
Amounts owed to subsidiary company	-	-	18,500	-	-	-	18,500
Other current liabilities	3,819	-	-	-	-	-	3,819
Total Liabilities	3,819	4,406	18,512	22,055	3,175,844	-	3,224,636

(f) Capital Risk Management

The Company's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

12. EVENTS AFTER BALANCE SHEET

As no future developments have been identified, the Company has passed resolutions to place its subsidiaries into members' voluntary liquidation including 100% direct subsidiaries Coleman Staffordshire Funding Limited on 8 April 2014 and both Eastcheap Funding Limited and Vintry Holding (UK) Limited on 22 April 2014. As preparatory steps ahead of the voluntary liquidation, dividends have been paid of £1,254,382 on 10 February 2014 by Coleman Staffordshire Funding Limited and £2,791,331 and £2,982,077 on 17 March 2014 by Eastcheap Funding Limited and Vintry Holding (UK) Limited respectively.

On 19 March 2014, Paul Gittins has been appointed as the Company secretary.