

Highland Funding (Holdings) Limited

Annual Report and Accounts

Period ended 31 December 2009

Company Number : 06927383

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Highland Funding (Holdings) Limited

DIRECTORS' REPORT

The directors have pleasure in presenting their first report and audited financial statements for Highland Funding (Holdings) Ltd ("the Company") for the period from incorporation to 31 December 2009

Principal activities

Highland Funding (Holdings) Limited was registered in England and Wales on 8 June 2009 as a limited company, with authorised share capital of £100 comprising of 100 ordinary shares of £1 each. Share capital of 1 ordinary share at £1 each was issued, all of which was fully paid up.

Highland Funding (Holdings) Limited (the "Company") was established to act as the parent company of Highland Funding Plc, the principal activity of which is to acquire an interest in a portfolio of mortgage loans, to issue notes (the "Notes") and to enter into financial arrangements with its related parties. No changes in the Company's activity are envisaged for the foreseeable future.

Results and dividends

The profit on ordinary activities before tax for the period from incorporation to 31 December 2009 was £12,500. No dividend was paid during the period.

The Company is exempt from preparing consolidated statements under International Accounting Standard 27 paragraph 10 due to its results being included in the consolidated financial statements of Lloyds Banking Group plc.

Key Performance Indicators (KPIs)

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

Directors and Directors' interests

The directors of the Company at the end of the period were as follows:

SFM Directors Limited
SFM Directors (No 2) Limited
Gary L Staines

None of the directors had a beneficial interest in the shares of the Company, or of the ultimate holding company, SFM Corporate Services Ltd.

Employees

The Company did not employ any staff during the period ended 31 December 2009.

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 elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. In preparing these financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board ("IASB"). 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

Highland Funding (Holdings) Limited

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- make an assessment of the Company's ability to continue as a going concern, 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.

Auditors and Audit Information

PricewaterhouseCoopers LLP were appointed as auditors of the company by resolution of the members on 19 June 2009. Having indicated their willingness to continue in office and in accordance with section 487 of the Companies Act 2006, they are deemed to be reappointed for the next financial year.

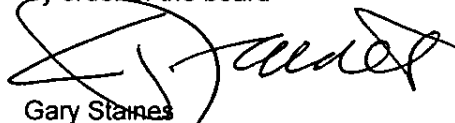
So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Statement of Going Concern

The directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the board



Gary Staines
Director
28 June 2010

Registered Office
35 Great St Helen's
London EC3A 6AP

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HIGHLAND FUNDING (HOLDINGS) LIMITED

We have audited the financial statements of Highland Funding (Holdings) Limited for the period ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flow, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 and 3, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's 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.

Scope of the audit of the financial statements

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.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit and cash flows for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Karyn Lamont

Karyn Lamont (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
28 June 2010

Highland Funding (Holdings) Limited

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2009

	Note	Period from incorporation to 31 Dec 2009
		£
Other Income	2	17,361
Other income		<u>17,361</u>
Operating expenses		-
Profit before tax		<u>17,361</u>
Taxation	3	(4,861)
Profit attributable to equity holders		<u>12,500</u>

There was no income or expense recognised directly in equity in the current period

The accompanying notes on pages 9 to 13 are an integral part of the Financial Statements

Company number 06927383

Highland Funding (Holdings) Limited

BALANCE SHEET AT 31 DECEMBER 2009

	Note	As at 31 Dec 2009
		£
Assets		
Cash and cash equivalents		1
Investment in subsidiary	4	50,000
Due from related party	5	4,861
Total assets		<u>54,862</u>
Equity and liabilities		
Trade and other payables	6	37,500
Current tax liability		4,861
Total liabilities		<u>42,361</u>
Called up share capital	7	1
Retained profits	8	12,500
Shareholders' equity		12,501
Total equity and liabilities		<u>54,862</u>

These financial statements were approved by the directors on 28 June 2010 and are signed on their behalf by



Gary Staines
Director

The accompanying notes on pages 9 to 13 are an integral part of the Financial Statements

Highland Funding (Holdings) Limited

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2009

	Note	Share capital £	Retained profits £	Total £
Period ended 31 Dec 2009				
Company				
Balance sheet at incorporation 8 June 2009		-	-	-
Share Capital issued in the period		1	-	1
Profit for the period	8	-	12,500	12,500
Balance at 31 Dec 2009		<u>1</u>	<u>12,500</u>	<u>12,501</u>

The accompanying notes on pages 9 to 13 are an integral part of the Financial Statements

Highland Funding (Holdings) Limited

CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2009

	Period from incorporation to 31 Dec 2009
	£
Operating Activities	
Profit before tax	17,361
Increase in trade and other receivables	<u>(4,861)</u>
	12,500
Investing Activities	
Investment in subsidiary	<u>(12,500)</u>
Financing Activities	
Issue of share capital	<u>1</u>
Net increase in cash and cash equivalents	<u><u>1</u></u>
Change in cash and cash equivalents	1
Cash and cash equivalents at start of period	<u>-</u>
Cash and cash equivalents at end of period	<u><u>1</u></u>

The cash flow is presented using the direct method to improve the transparency of the accounts

The accompanying notes on pages 9 to 13 are an integral part of the Financial Statements

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The Company is domiciled in England

Statement of compliance

The financial statements for the period ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. However the Company has not utilised the 'carve out' provisions in respect of full fair value and portfolio hedging of core deposits in IAS39 'Financial Instruments: Recognition and Measurement' as adopted by the European Union. Consequently the financial statements comply with the International Financial Reporting Standards.

The principal accounting policies applied in the preparation of these financial statements are set out below and have been applied consistently in respect of the financial period ended 31 December 2009.

The financial statements also comply with the relevant provisions of Part XV of the Companies Act 2006.

The financial statements have been prepared using the going concern basis. The directors have reviewed the expected future cash flows and believe they are adequate to meet the anticipated payments in accordance with the Programme Documentation. The directors have also considered that additional safeguards are in place to cover any unexpected issues which may arise in light of the current market turbulence including access to a general cash reserve and the ability to defer payment in certain circumstances.

The financial statements are presented in Sterling which is the Company's functional and presentation currency and are presented to the nearest pound.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of the financial assets and financial liabilities as appropriate under IFRS.

The Company is exempt from preparing consolidated statements under International Accounting Standard 27 paragraph 10 due to its results being included in the consolidated financial statements of Lloyds Banking Group plc.

Revenue recognition

Other income is recognised in the period in which it is earned.

Taxation

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

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on demand deposits.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are paid.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The directors of the Company consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

Highland Funding (Holdings) Limited

2. OTHER INCOME

Period from
incorporation
to 31 Dec 2009

£

Other income	<u>17,361</u>
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Payment from Lloyds TSB Bank plc to fund the purchase of the paid up share capital and associated tax payment of Highland Funding plc

3. TAXATION

Analysis of charge in period

Period from
incorporation
to 31 Dec 2009

£

UK corporation tax

Current tax on profits for the period	<u>4,861</u>
Total tax (credit) / charge	<u>4,861</u>

The charge for tax on the profit for the period from incorporation to 31 December 2009 is based on a UK corporation tax rate of 28 per cent

Factors affecting tax charge for the period

Period from
incorporation
to 31 Dec 2009

£

Tax charge at UK corporation tax rate of 28%	<u>4,861</u>
Total tax (credit) / charge	<u>4,861</u>

4. INVESTMENT IN SUBSIDIARY

As at
31 Dec
2009
£

Investment in Highland Funding plc	<u>50,000</u>
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Highland Funding plc is registered and resident in the UK

Highland Funding (Holdings) Limited

5. DUE FROM RELATED PARTY

	As at 31 Dec 2009 £
Due from related party	4,861
	<u>4,861</u>

Lloyds TSB Bank plc will provide the funds in order for the Company to pay the tax liability

6. TRADE AND OTHER PAYABLES

	As at 31 Dec 2009 £
Unpaid investment in Highland Funding plc	37,500
	<u>37,500</u>

7. CALLED UP SHARE CAPITAL

	As at 31 Dec 2009 £
Authorised ordinary shares of £1 each	100
Issued and fully paid ordinary shares of £1 each	<u>1</u>

8. RETAINED PROFITS

	As at 31 Dec 2009 £
At incorporation	-
Profit for the period	12,500
At close of period	<u>12,500</u>

Highland Funding (Holdings) Limited

Profit for the period	12,500
At close of period	<u>12,500</u>

9 RELATED PARTY TRANSACTIONS

The Company entered into related party transactions with Lloyds TSB Bank plc. A payment from Lloyds TSB Bank plc was made to fund the purchase of paid up share capital of Highland Funding plc and a payment is due to fund the associated tax liability for the period.

10 FUTURE DEVELOPMENTS

The following pronouncements will be relevant to the Company but were not effective at 31 December 2009 and have not been applied in preparing these financial statements.

Pronouncement	Nature of Change	Effective Date
Improvements to IFRSs (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
IAS24 Related Party Disclosures	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011

11. PARENT COMPANIES

The immediate parent company is SFM Corporate Services Ltd who holds the share on trust on discretionary basis for the benefit of certain charities (which do not include Lloyds Banking Group plc or any entity connected with Lloyds Banking Group plc).

For accounting purposes under the IFRS, the Company's ultimate parent and controlling party is Lloyds Banking Group plc (formerly Lloyds TSB Group plc). The Company's results are included within the consolidated financial statements of Lloyds Banking Group plc. Copies of the group accounts may be obtained from the Company Secretary's Office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

Highland Funding (Holdings) Limited

Highland Funding (Holdings) Limited
Registered Office
35 Great St Helen's
London
EC3A 6AP

Registered in England No 06927383