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CHESHIRE HOLDINGS EUROPE LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 MARCH 2013

CHESHIRE HOLDINGS EUROPE LIMITED

REPORT AND ACCOUNTS
For the year ended 31 March 2013

Registered in England & Wales as an oversea company No FC026614, Cheshire Europe Limited

Registered office 7 Bond Street, St Helier, Jersey, Channel Islands, JE4 8PH

DIRECTORS

R G M Conway
A Goldsmith
L J Kenworthy
P Pitale

COMPANY SECRETARY

Lloyds TSB (Jersey) Management Limited

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CHESHIRE HOLDINGS EUROPE LIMITED ("the Company")

DIRECTORS' REPORT
For the year ended 31 March 2013

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

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

The Company's principal activity is to carry on the business of an investment company There have been no changes in the nature of the Company's operations during the year, and no changes are expected in the foreseeable future

The profit after taxation for the year of £5,046,000 (2012 £5,871,000) is set out in the Statement of Comprehensive Income on page 6 and consists mainly of interest income on the variable interest loan to Lloyds TSB Bank plc net of the related tax
No dividends on ordinary A shares were paid or declared during the year (2012 £nil)

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 and are not managed separately Full disclosure of the Company's financial risk management objectives and policies are given in note 13 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

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

The directors have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision" These deeds are in force during the whole of the financial year (or from the date of appointment in respect of the directors who join the board during the financial year) The indemnities remain in force at the date of signing these financial statements Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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

EVENTS AFTER BALANCE SHEET

On 23 September 2013, Lloyds TSB Bank plc changed its name to Lloyds Bank plc

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

P N Pitale
DIRECTOR
Date 26 September 2013

Company No FC026614

CHESHIRE HOLDINGS EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHESHIRE HOLDINGS EUROPE LIMITED

For the year ended 31 March 2013

We have audited the non-statutory financial statements of Cheshire Holdings Europe Limited for the year ended 31 March 2013 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes The financial reporting framework that has been applied in the preparation of these non-statutory financial statements is International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3 and 4, the directors are responsible for the preparation of the non-statutory 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 non-statutory 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 directors for management purposes to assist them in discharging their stewardship obligations and fiduciary responsibilities under the Articles of Association in accordance with our engagement letter dated 01 February 2013 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 non-statutory financial statements

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory financial statements sufficient to give reasonable assurance that the non-statutory 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 non-statutory financial statements

Opinion on non-statutory financial statements

In our opinion the non-statutory financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit and cash flows for the year then ended, and
- have been properly prepared in accordance with IFRSs as adopted by the European Union

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
Date 26 September 2013

CHESHIRE HOLDINGS EUROPE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Interest and similar income	3	6,643	7,943
Interest and similar expense	3	(3)	(3)
Net interest income	3	6,640	7,940
Administrative expense	4	-	(5)
Profit before taxation		6,640	7,935
Taxation	5	(1,594)	(2,064)
Profit for the year		5,046	5,871
Total comprehensive income for the year		5,046	5,871

The accompanying notes on pages 10 to 21 are an integral part of the financial statements

CHESHIRE HOLDINGS EUROPE LIMITED

BALANCE SHEET
As at 31 March 2013

	Note	2013 £'000	2012 £'000
Assets			
Non-current assets			
Amounts owed by intermediate parent company	12	871,920	871,920
Total non-current assets		871,920	871,920
Current assets			
Cash and cash equivalents	12	14,062	6,788
Other current assets	6	548	1,182
Total current assets		14,610	7,970
Total assets		886,530	879,890
Liabilities			
Non-current liabilities			
Amounts owed to other group company	12	126	126
Total non-current liabilities		126	126
Current liabilities			
Other current liabilities	8	17	17
Current tax liability	7	5,469	3,875
Total current liabilities		5,486	3,892
Total liabilities		5,612	4,018
Equity			
Share capital	9	1	1
Share premium	11	695	695
Other reserves	10	867,306	867,306
Retained earnings		12,916	7,870
Total equity		880,918	875,872
Total liabilities and equity		886,530	879,890

The directors authorised and approved the financial statements on pages 6 to 21 on 26 September 2013

P N Pitale
DIRECTOR

The accompanying notes on pages 10 to 21 form an integral part of the financial statements

CHESHIRE HOLDINGS EUROPE LIMITED

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

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2011	1	695	867,306	1,999	870,001
Profit and total comprehensive income for the year	-	-	-	5,871	5,871
Balance at 31 March 2012	1	695	867,306	7,870	875,872
Profit and total comprehensive income for the year	-	-	-	5,046	5,046
Balance at 31 March 2013	1	695	867,306	12,916	880,918

The accompanying notes on pages 10 to 21 form an integral part of the financial statements

CHESHIRE HOLDINGS EUROPE LIMITED

CASH FLOW STATEMENT

For the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities			
Profit before taxation		**6,640**	7,935
Adjustment for			
Interest income	3	**(6,643)**	(7,943)
Interest expense	3	**3**	3
Operating loss before working capital changes		**-**	(5)
Increase in other current liabilities	8	**-**	5
Tax paid		**-**	(2,731)
Net cash used in operating activities		**-**	(2,731)
Cash flows from investing activities			
Interest received		**7,277**	7,624
Net cash generated from investing activities		**7,277**	7,624
Cash flows from financing activities			
Interest paid		**(3)**	(3)
Net cash used in financing activities		**(3)**	(3)
Net increase in cash and cash equivalents		**7,274**	4,890
Cash and cash equivalents at beginning of the year		**6,788**	1,898
Cash and cash equivalents at end of the year	12	**14,062**	6,788

The accompanying notes on pages 10 to 21 are an integral part of the financial statements

CHESHIRE HOLDINGS EUROPE LIMITED

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

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

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

The financial statements have been prepared 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 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 and relevant to the Company

Pronouncement	Nature of change	IASB effective date
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
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

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

Pronouncement	Nature of change	IASB effective date
Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income	The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments) The amendments do not address which items are presented in OCI	1 July 2012
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	1 January 2013

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
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 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
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

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

1. ACCOUNTING POLICIES (CONTINUED)

IFRS 11, 'Joint arrangements'	IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to 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 share of assets, liabilities, revenue and expenses Joint ventures arise where the joint venturer 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
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the requirements relating to separate financial statements	1 January 2013
IAS 28 (revised 2011), 'Associates and joint ventures	IAS 28 (revised 2011) includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11	1 January 2013
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 surface 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 and were not effective as at 31 March 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

1. ACCOUNTING POLICIES (CONTINUED)

IFRS 9, 'Financial instruments'	IFRS 9 is the first standard issued as part of a wider project to replace IAS 39 IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets amortised cost and fair value The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply	1 January 2015

(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

(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

(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

(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) 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

Redeemable shares which carry a mandatory coupon or are redeemable on a specific date, or where other terms and conditions exist which mean the Company does not have an unconditional right to avoid delivering cash, are classified as financial liabilities Irredeemable shares which carry a mandatory coupon are classified as financial liabilities The coupon or dividends paid on those instruments is recognised in the Statement of Comprehensive Income as interest expense

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

1. ACCOUNTING POLICIES (CONTINUED)

(f) 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 loans and receivables
The Company determines that the loans and receivables are impaired when the present value of the estimated future cash flows do not exceed their recoverable amount Estimating the future cash flows requires a degree of judgement and may depend to a large extent on the selection of key assumptions about the future used

3. NET INTEREST INCOME

	2013	2012
	£'000	£'000
Interest Income		
Amounts owed by intermediate parent company (note 12)	6,591	7,920
Cash balance with intermediate parent company (note 12)	52	23
	6,643	7,943
Interest Expense		
Dividends paid on redeemable preference shares treated as debt (note 12)	3	3
Net interest income	6,640	7,940

4. ADMINISTRATIVE EXPENSE

	2013	2012
	£'000	£'000
Audit fee	-	5
	-	5

The number of persons employed by the Company during the year was nil (2012 nil) Directors receive no renumeration for their services to the Company Audit fee for the year have been bone by Lloyds TSB Bank Plc

5. TAXATION

(a) Analysis of tax charge for the year

	2013	2012
	£'000	£'000
UK Corporation tax - current year	1,594	2,064

The tax charge on the Company's profit for the year is based on a UK corporation tax rate 24% (2012 26%)

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

5 TAXATION (CONTINUED)

(b) Factors affecting the tax charge for the year

A reconciliation of the tax charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge for the year is given below

	2013 £'000	2012 £'000
Profit before taxation	6,640	7,935
Tax credit thereon at UK corporation tax rate of 24% (2012 26%)	1,593	2,063
Factors affecting charges		
Non tax deductible preference dividends payable	1	1
Total taxation	1,594	2,064
Effective rate	24%	26%

On 21 March 2012, the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012 This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012 In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013

Finance Act 2013, which passed into law on 17 July 2013, included legislation to reduce the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015

6. OTHER CURRENT ASSETS

	2013 £'000	2012 £'000
Interest receivable on amounts owed by intermediate parent company (note 12)	548	1,182
	548	1,182

7. CURRENT TAX LIABILITY

	2013 £'000	2012 £'000
Current tax payable	5,469	3,875
	5,469	3,875

8. OTHER CURRENT LIABILITIES

	2013 £'000	2012 £'000
Interest payable (note 12)	2	2
Audit fees payable (note 12)	15	15
	17	17

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

9. SHARE CAPITAL

	2013 Number of shares	2012 Number of shares	2013 £	2012 £
Issued and fully paid:				
Ordinary shares of US $1 each	10	10	7	7
Redeemable shares of US$0 01 each	100,000	100,000	696	696
Non-cumulative preference shares of £1 each	126,420	126,420	126,420	126,420
			127,123	127,123
Less preference shares treated as debt (note 12)			(126,420)	(126,420)
			703	703

The characteristics of each ordinary share of US$1 ("ordinary shares") are as follows:

- Carry no rights to dividends and hence are classified as equity in line with IAS 32
- Rank senior in priority to the redeemable shares, but not the preference shares, on a return of capital
- The ordinary shares do not confer any right to participate in the assets of the Company

The characteristics of each redeemable share of US$0.01 ("redeemable shares") are as follows:

- Carry the rights to discretionary dividends after preference shares
- Entitled to payment after preference and ordinary shares on a return of capital
- The redeemable shares are redeemable at the option of the shareholder
- The redeemable shares will be redeemed at such sum as may be agreed between the Company and the holder of the redeemable share

The characteristics of each irredeemable preference share of £1 ("preference shares") are as follows:

- Carry the rights to a single non-cumulative preferential dividend in priority to the redeemable shares
- Carry the rights to mandatory dividends based on LIBOR rate applied to the nominal amount of the preference shares
- Rank senior to the ordinary shares and redeemable shares on a return of capital
- Carry no voting rights except over proposals at general meetings abrogating, varying or modifying any of the rights or privileges of the holders of the preference shares

10. OTHER RESERVES

	2013 £'000	2012 £'000
At beginning and end of the year	867,306	867,306

On 20 December 2005, Cheshire Receivables Assignment Co LLC, the immediate parent company at that time, made a gratuitous cash contribution to the Company for an amount of £867,306,359 The contribution is unconditional and does not constitute any form of debt owed by the Company The contribution is available for distribution to the shareholders, subject to Jersey law and the articles of association of the Company

11. SHARE PREMIUM

	2013 £'000	2012 £'000
At beginning and end of the year	695	695

12. RELATED PARTY TRANSACTIONS

The Company's immediate parent company is Portland Funding Limited 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 accounts are drawn up and of which the Company is a member Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings Copies of the group accounts 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 with the Group

Amounts owed by intermediate parent company

	2013 £'000	2012 £'000
At beginning and end of the year	**871,920**	871,920
Representing		
Lloyds TSB Bank plc	**871,920**	871,920
Interest Income earned (note 3)	**6,591**	7,920
Interest Income receivable (note 6)	**548**	1,182

Interest on the loans to Lloyds TSB Bank plc is receivable at a variable Libor based rate The loans advanced to Lloyds TSB Bank plc are repayable on 15 May 2020 No impairment has arisen in respect of these loans and accordingly no provision has been recognised The book value of the loan is considered to approximate its fair value

Amount owed to other group company

	2013 £'000	2012 £'000
At beginning and end of the year	**126**	126
Representing		
Gouda LLC	**126**	126
Interest expense during the year (note 3)	**3**	3
Interest payable (note 8)	**2**	2

The above amount relates to issued non-cumulative preference shares of £1 each treated as debt in accordance with IAS 32 (see note 9)

Other transactions with intermediate parent company

	2013 £'000	2012 £'000
Lloyds TSB Bank plc - cash and cash equivalents	**14,062**	6,788
Interest earned (note 3)	**52**	23
Audit fees payable (note 8)	**15**	15

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

13. FINANCIAL RISK MANAGEMENT

The Company uses financial instruments to meet the financial needs of its counterparties and to reduce its own exposure to fluctuations in interest rates

(a) Interest Rate Risk

Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets From the perspective of the Company, the interest rate risks are integrated with the interest rate risks of the Group and are not managed separately The scenarios are run only for assets and liabilities that represent the major interest-bearing positions Based on the simulations performed, the full year impact on post-tax profit of a 0 25% shift would be a maximum increase or decrease of approximately £1,683,000 (2012 £1,625,000)

The table below summarises the repricing mismatches of the Company's non-trading assets and liabilities Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date Expected repricing and maturity dates do not differ significantly from the contract dates

As at 31 March 2013	**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							
Amounts owed by intermediate parent company	-	871,920	-	-	-	-	871,920
Current assets							
Cash and cash equivalents	14,062	-	-	-	-	-	14,062
Other current assets	-	-	-	-	-	548	548
Total Assets	14,062	871,920	-	-	-	548	886,530
Liabilities							
Non-current liabilities							
Amounts owed to other group company	-	126	-	-	-	-	126
Current liabilities							
Other current liabilities	-	-	-	-	-	17	17
Current tax liability	-	-	-	-	-	5,469	5,469
Total Liabilities	-	126	-	-	-	5,486	5,612
Total interest sensitivity gap	14,062	871,794	-	-	-	(4,938)	880,918

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

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 March 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							
Amounts owed by intermediate parent company	-	871,920	-	-	-	-	871,920
Current assets							
Cash and cash equivalents	6,788	-	-	-	-	-	6,788
Other current assets	-	-	-	-	-	1,182	1,182
Total Assets	6,788	871,920	-	-	-	1,182	879,890
Liabilities							
Non-current liabilities							
Amounts owed to other group company	-	126	-	-	-	-	126
Current liabilities							
Other current liability	-	-	-	-	-	17	17
Current tax liability	-	-	-	-	-	3,875	3,875
Total Liabilities	-	126	-	-	-	3,892	4,018
Total interest sensitivity gap	6,788	871,794	-	-	-	(2,710)	875,872

(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 Company provided loans and advances to other Lloyds Banking Group companies at variable rates The fair value of these loans and advances is not significantly different from the carrying value as disclosed in note 12 The fair values are at a specific date and may be significantly different from the amounts which will be paid or received on maturity or settlement date

(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

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 March 2013

	Loans and receivables £'000	Held at amortised cost £'000	Total £'000
Assets			
Amounts owed by intermediate parent company	871,920	-	871,920
Cash and cash equivalents	-	14,062	14,062
Other current assets	-	548	548
Total financial assets	871,920	14,610	886,530
Liabilities			
Amounts owed to other group company	-	126	126
Other current liabilities	-	17	17
Total financial liabilities	-	143	143

As at 31 March 2012

	Loans and receivables £'000	Held at amortised cost £'000	Total £'000
Assets			
Amounts owed by intermediate parent company	871,920	-	871,920
Cash and cash equivalents	-	6,788	6,788
Other current assets	-	1,182	1,182
Total financial assets	871,920	7,970	879,890
Liabilities			
Amounts owed to other group company	-	126	126
Other current liabilities	-	17	17
Total financial liabilities	-	143	143

(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 year end

	2013 £'000	2012 £'000
Amounts owed by intermediate parent company	871,920	871,920
Cash and cash equivalents	14,062	6,788
Other current assets	548	1,182
Total credit risk exposure	886,530	879,890

The current rating of the intermediate parent company of Lloyds TSB Bank plc, is A2 (2012 A2) as per Moody's

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13. 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 sheet date Balances with no fixed maturity are included in the over 5 years category

As at 31 March 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
Non-current liabilities							
Amounts owed to other group company	-	-	-	3	8	172	183
Current liabilities							
Other current liabilities	17	-	-	-	-	-	17
Total Liabilities	17	-	-	3	8	172	200

As at 31 March 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
Non-current liabilities							
Amounts owed to other group company	-	-	3	-	14	173	190
Current liabilities							
Other current liabilities	17	-	-	-	-	-	17
Total Liabilities	17	-	3	-	14	173	207

(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