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Horsham Investments Limited

Report and Accounts

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Horsham Investments Limited

Report and accounts 2006

Registered in England & Wales as an overseas company No FC025776

Registered office Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies

Directors

R G M Conway

L J Kenworthy

M W Joseph (resigned 15 November 2006)

J B T Trevelyan

A Goldsmith (appointed 21 November 2006)

Horsham Investments Limited

Directors' report

Principal activity and business review

The company's principal activity is to carry on the business of an investment holding company. There are no expected changes in the nature of the company's operations.

The profit for the year of £221,000 (Period ended 31 December 2005: £873,000) is set out in the income statement on page 5, after including interest expense, dividends on preference shares treated as debt to Lloyds Bank Subsidiaries Limited amounting to £42,090,000 in 2006 (Period ended 31 December 2005: £40,822,000).

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the 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

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 following directors served during the year:

R G M Conway

L J Kenworthy

M W Joseph

J B T Trevelyan

A Goldsmith

(resigned on 15 November 2006)

(appointed on 21 November 2006)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report including, as described below, the financial statements. The United Kingdom Companies Act 1985 requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the period end and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRS) 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 a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985. 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.

Horsham Investments Limited

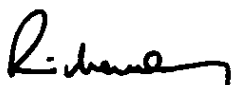
Directors' report (continued)

Auditors and audit information

Each person who is a director at the date of approval of this report confirms that, so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

PricewaterhouseCoopers LLP was re-appointed as auditors

On behalf of the board



R G M Conway
Director

26 JUNE 2007

Horsham Investments Limited

Independent auditor's report to the members of Horsham Investments Limited

We have audited the financial statements of Horsham Investments Limited for the year ended 31 December 2006 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 700 of the Companies Act 1985 as modified by the Oversea Companies (Accounts) (Modifications and Exemptions) Regulations 1990 (the "1990 Regulations") with certain available exemptions as described in note 1 not taken, and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985, as applicable to overseas companies as modified by the 1990 Regulations with certain available exemptions not taken. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

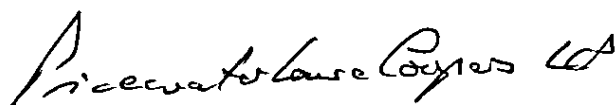
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, as applicable to overseas companies as modified by the 1990 Regulations with certain available exemptions as described in note 1 not taken, and
- the information given in the directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton

Date: 27 June 2007

Horsham Investments Limited

Income statement

for the year ended 31 December 2006

	Note	1 January 2006 to 31 December 2006 £'000	4 January 2005 to 31 December 2005 £'000
Interest and similar income		42,306	41,115
Interest and similar expense		(42,090)	(40,822)
Net interest income	3	216	293
Other operating income	4	100	954
Operating expense	5	-	-
Profit before tax		316	1,247
Taxation	6	(95)	(374)
Profit for the period attributable to equity holders		221	873

All activities are continuing. The company has no recognised gains and losses other than those included in the results above and in the statement of changes in equity.

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

Horsham Investments Limited

Balance sheet

at 31 December 2006

	Note	2006 £'000	2005 £'000
ASSETS			
Non-current assets			
Amounts owed by group company	12	1,000,000	1,000,000
Current assets			
Amounts owed by intermediate parent company	12	7,034	8,248
Cash and cash equivalents	12	1,163	1
Other current assets	7	2,342	2,349
		10,539	10,598
Total assets		1,010,539	1,010,598
LIABILITIES			
Non-current liabilities			
Amounts owed to immediate parent company	12	1,000,000	1,000,000
Current liabilities			
Current tax liabilities	8	95	374
Other current liabilities	9	9,340	9,341
		9,435	9,715
Total liabilities		1,009,435	1,009,715
EQUITY			
Share capital	10	10	10
Retained profits	11	1,094	873
		1,104	883
Total equity		1,010,539	1,010,598
Total equity and liabilities		1,010,539	1,010,598

The directors approved the accounts on 26 June 2007



R G M Conway
Director

The accompanying notes are an integral part of the financial statements

Horsham Investments Limited

Statement of changes in equity for the year ended 31 December 2006

	Share capital £'000	Retained profits £'000	Total £'000
Share capital issued	10	-	10
Profit for the period	-	873	873
Balance at 31 December 2005	10	873	883
Profit for the year	-	221	221
Balance at 31 December 2006	10	1,094	1,104

The accompanying notes are an integral part of the financial statements

Horsham Investments Limited

Cash flow statement

for the year ended 31 December 2006

		1 January 2006 to 31 December 2006 £'000	4 January 2005 to 31 December 2005 £'000
	Notes		
Cash flows from operating activities			
Profit before taxation		316	1,247
Adjustments for			
Interest expense	3	42,090	40,822
Operating profit before working capital changes		42,406	42,069
Decrease / (Increase) in other current assets	7	7	(2,349)
Cash generated from operations		42,413	39,720
Interest paid	3 / 9	(42,091)	(31,481)
Income taxes paid		(374)	-
Net cash (used in) / provided from operating activities		(52)	8,239
Cash flows from investing activities:			
Advances to immediate parent company	12	-	(1,000,000)
Advances to intermediate parent company	12	(28,136)	(50,429)
Repayments by intermediate parent company	12	29,350	42,181
Net cash provided from / (used in) investing activities		1,214	(1,008,248)
Cash flows from financing activities:			
Proceeds from issue of ordinary share capital	10	-	10
Proceeds from loans from group company	12	-	1,000,000
Net cash provided from financing activities		-	1,000,010
Change in cash and cash equivalents		1,162	1
Cash and cash equivalents at beginning of year / period		1	-
Cash and cash equivalents at end of year / period	12	1,163	1

The accompanying notes are an integral part of the financial statements

Horsham Investments Limited

Notes to the Financial Statements

1 Accounting policies

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, 1985 and in accordance with the applicable International Financial Reporting Standards (IFRS).

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 Directors have prepared the financial statements in accordance with section 700(1) of the Companies Act 1985 ('the Act') as modified by the Oversea Companies (Accounts) (Modifications and Exemptions) Order 1990 (SI 1990/440) ('the 1990 Regulations'). The principal effect of this modification of section 700(1) is to require overseas companies subject to the provisions of the Act to prepare their accounts in accordance with Part VII, and the schedules to that part, of the Act as they were originally published and without the amendments or repeals made by the Companies Act 1989 and subsequent legislation. The unamended Part VII, and the schedules thereto, of the Act have no prescriptive formats for accounts of overseas companies nor do they specify an, or preclude any, accounting framework for use in preparing their accounts. As such the Directors have chosen to use International Financial Reporting Standards as adopted by the European Union as the underlying accounting framework for the preparation of these financial statements.

The 1990 Regulations also provide exemptions for overseas companies to omit particular information from their financial statements that would otherwise be required. The Directors have chosen not to take advantage of the following exemptions and therefore the financial statements include:

- An audit report
- A directors' report
- Taxation information
 - The basis of computation and amount of any provision, or charge to revenue for UK corporation tax (ignoring double tax relief) and UK income tax
 - The amount of any charge for taxation imposed outside the UK on profits, income and capital gains (to the extent that capital gains are credited to revenue)
- The amount of turnover and the method by which it is arrived at
- Details of the name and place of incorporation of the company's ultimate parent company

(a) Revenue recognition

Interest income and expense are recognised in the income statement 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. 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 period 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.

Horsham Investments Limited

Notes to the Financial Statements

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

(d) Borrowings

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 income statement as interest expense

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 judgments 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. However, none of these were deemed critical to the company's results and financial position

3 Net interest income

	2006 £'000	2005 £'000
<i>Interest income</i>		
Amounts owed by intermediate parent company	216	293
Dividends received on preference shares from group company	42,090	40,822
	<u>42,306</u>	<u>41,115</u>
<i>Interest expense</i>		
Dividends paid on preference shares treated as debt to immediate parent company	42,090	40,822
	<u>42,090</u>	<u>40,822</u>
Net interest income	<u>216</u>	<u>293</u>

4 Other operating income

	2006 £'000	2005 £'000
Fees receivable from other group company	100	75
One-off restructuring fee from other group company	-	879
	<u>100</u>	<u>954</u>

5 Other operating expenses

The statutory audit fees of £4,000 (2005 £4,000) are borne by Lloyds TSB Bank Plc. The average number of persons employed by the company during the period was nil (2005 nil)

Horsham Investments Limited

Notes to the Financial Statements

6	Taxation	2006	2005
		£'000	£'000
a)	Analysis of charge for the period		
	Current tax charge	95	374
<p>The charge for tax on the profit for the period is based on a UK corporation tax rate of 30 per cent (2005 30 per cent) Corporation tax has been provided on the basis that preference dividends are non-taxable items, which the directors consider to be the appropriate treatment. However, HM Revenue and Customs have opened an enquiry into the Company's tax return for the period ended 31 December 2005. In the event such dividends are determined to be taxable items, the directors have confirmed that a fellow Lloyds TSB group subsidiary will surrender, for nil consideration, tax losses sufficient to cover any additional taxable profit arising.</p>			
b)	Factors affecting the tax charge for the period		
<p>A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge for the period is given below</p>			
		2006	2005
		£'000	£'000
	Profit before tax	316	1,247
	Tax charge thereon at UK corporation tax rate of 30%	95	374
	Factors affecting charge		
	Non-taxable preference dividends receivable	(12,627)	(12,247)
	Non-deductible preference dividends payable	12,627	12,247
	Tax on profit on ordinary activities	95	374
	Effective rate	30%	30%
7	Other current assets	2006	2005
		£'000	£'000
	Interest receivable on amounts owed by group company	35	43
	Dividends receivable on preference shares	2,306	2,306
		2,341	2,349
8	Current tax liabilities	2006	2005
		£'000	£'000
	Corporation tax payable	95	374
9	Other current liabilities	2006	2005
		£'000	£'000
	Dividends payable on preference shares treated as debt to immediate parent company	9,340	9,341
10	Share capital	2006	2005
		£'000	£'000
	Authorised		
	Sterling		
	10,000 Ordinary shares of £1 each	10	10
	10,000,000 irredeemable cumulative preference shares of £1 each	10,000	10,000
		10,010	10,010

Horsham Investments Limited

Notes to the Financial Statements

10 Share capital (continued)

	2006 Number of shares	2005 Number of shares	2006 £'000	2005 £'000
Issued and fully paid				
Ordinary shares of £1 each	10,000	10,000	10	10
Preference shares of £1 each	10,000,000	10,000,000	-	-

The above preference shares were issued for £100. The irredeemable preference shares of £1,000,000,000 are treated as debt under IAS 32. Dividends are payable at a mandatory fixed rate of 4.208999% subject only to available distributable profits.

11 Retained profits

	2006 £'000	2005 £'000
At beginning of the year / period	873	-
Profit for the year / period	221	873
At 31 December	1,094	873

12 Related party transactions

The company's immediate parent company is Lloyds Bank Subsidiaries Limited. The company regarded by the directors as the ultimate parent company is Lloyds TSB 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 TSB Group plc, 25 Gresham Street, London EC2V. The company's related parties include its ultimate parent company, fellow subsidiaries and pension schemes of the company's ultimate parent company 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 period. Key management personnel are employed by other companies in the Lloyds TSB Group and consider that their services to the Company are incidental to their other activities within the Group.

Amounts owed by group company

	2006 £'000	2005 £'000
At beginning of the period	1,000,000	-
Purchased during the period	-	1,000,000
At 31 December	1,000,000	1,000,000
Representing Farnham Funding Limited	1,000,000	1,000,000

The above preference shares were purchased for £100 each. These preference shares are treated as Loans and Receivables under IAS 32. Dividends are receivable at a mandatory fixed rate of 4.208999% subject only to available distributable profits. The fair value of the preference shares at 31 December 2006 is £1,005,910,000 (31 December 2005 £1,004,224,000).

Horsham Investments Limited

Notes to the Financial Statements

12 Related party transactions (continued)

The company is a wholly owned subsidiary of Lloyds TSB Bank Plc. The Lloyds TSB Group (headed by Lloyds TSB Bank Plc), through a contract for difference between Lloyds TSB Bank plc and European International Reinsurance Company, a member of the Swiss Re Group, has the majority of the economic risks and rewards of Farnham Funding Limited. Consequently, in accordance with the Companies Act 1985 and FRS 5, Farnham Funding Limited falls to be consolidated with the Lloyds Group. Pursuant to and for the purposes of FRS 8, Related Parties, Lloyds TSB Bank Plc and other members of the Lloyds Group are considered to be related parties in relation to the company.

Amounts owed by intermediate parent company

	2006 £'000	2005 £'000
At beginning of the period	8,248	-
Advanced during the period	28,136	50,429
Repayments during the period	29,350	42,181
At 31 December	7,034	8,248
Representing		
Lloyds TSB Bank plc	7,034	8,248
Interest income earned (refer note 3)	170	291
Interest income receivable (refer note 7)	35	43

The loan advanced to Lloyds TSB Bank Plc is repayable on 12 January 2007. Interest on the loan balance is receivable at fixed rates between 4.47% and 5.24%. The fair value of the loan at 31 December 2006 is £7,031,000 (31 December 2005 £8,245,000). No impairment has arisen in respect of this loan and accordingly no provision has been recognised.

Other transactions with intermediate parent company

	2006 £'000	2005 £'000
Cash balance with intermediate parent company		
Lloyds TSB Bank plc – Cash and cash equivalent	1,163	1
Interest income earned (refer note 3)	46	2

Amounts owed to immediate parent company

	2006 £'000	2005 £'000
At beginning of the period	1,000,000	-
Preference shares purchased during the period	-	1,000,000
At 31 December	1,000,000	1,000,000
Representing		
Lloyds Bank Subsidiaries Limited	1,000,000	1,000,000
Interest charged during the period (refer note 3)	42,090	40,822
Interest payable (refer note 9)	9,340	9,341

Dividends on the above shares are payable at a mandatory fixed rate of 4.08999% subject only to available distributable profits. The fair value of the preference shares at 31 December 2006 is £1,005,910,000 (31 December 2005 £1,004,224,000).

Horsham Investments Limited

Notes to the Financial Statements

13 Financial risk management

A Strategy in using financial instruments

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

The company makes loans to other Lloyds TSB Group companies at fixed rates for various periods

B Market risk

Interest rate risk

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

	1 months or less £'000	3 months or less but over 1 months £'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
As at 31 December 2006							
<i>Assets</i>							
Amounts owed by group company	7,034	-	-	1,000,000	-	-	1,007,034
Cash and cash equivalents	1,163	-	-	-	-	-	1,163
Other current assets	-	-	-	-	-	2,342	2,342
Total assets	8,197	-	-	1,000,000	-	2,342	1,010,539
<i>Liabilities</i>							
Current tax liabilities	-	-	-	-	-	95	95
Other current liabilities	-	-	-	-	-	9,340	9,340
Amounts owed to other group company	-	-	-	1,000,000	-	-	1,000,000
Total liabilities	-	-	-	1,000,000	-	9,435	1,009,435
Total interest sensitivity gap	8,197	-	-	-	-	(7,093)	1,104
	1 months or less £'000	3 months or less but over 1 months £'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
As at 31 December 2005							
<i>Assets</i>							
Amounts owed by other group companies	8,248	-	-	-	1,000,000	-	1,008,248
Cash and cash equivalents	1	-	-	-	-	-	1
Other current assets	-	-	-	-	-	2,349	2,349
Total assets	8,249	-	-	-	1,000,000	2,349	1,010,598
<i>Liabilities</i>							
Current tax liabilities	-	-	-	-	-	374	374
Other current liabilities	-	-	-	-	-	9,341	9,341
Amounts owed to other group company	-	-	-	-	1,000,000	-	1,000,000
Total liabilities	-	-	-	-	1,000,000	9,715	1,009,715
Total interest sensitivity gap	8,249	-	-	-	-	(7,366)	883

Horsham Investments Limited

Notes to the Financial Statements

13 Financial risk management (continued)

C Fair values of financial assets and liabilities

Financial instruments include financial assets, financial liabilities and derivatives. 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 presented in the following table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

The valuation technique for the major category of financial instruments used is discussed below.

Loans and advances

The Company provides loans and advances to other Lloyds TSB Group companies at fixed rates. The fair value of these loans and advances are disclosed in note 12.