Scottish Business Finance Limited

Registered number SC29917

Report and Accounts 2005

Member of Lloyds TSB Group

Contents

Company information

Directors

Directors	JL Davies RN McIntyre DK Potts
Secretary	David Jarvis

Scottish Business Finance Limited is a limited Company registered in Scotland No SC29917 and is both incorporated and domiciled in Scotland

Registered office

2 Atlantic Quay
Robertson Street
Glasgow
G2 8JF

Directors' report

For the year ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005

Principal activities

The principal activity of Scottish Business Finance Limited (the "Company") is the provision of instalment finance and leasing The Company has ceased to write new business and the level of interest income will reduce accordingly as the loan book runs down

Review of business

The business has performed in line with expectations during the period There are no expected changes in the nature and extent of the Company's operations

Financial risk management

Responsibility for the control of overall risk within the Company lies with the board of directors See note 2

Dividends

No dividend has been declared in respect of 2005 (2004 £nil)

Directors and their interests

The names of the current directors are shown on page 2

J L Davies and D K Potts are also directors of Lloyds TSB Asset Finance Division Limited, and their interests in the capital of Lloyds TSB Group plc and its subsidiaries are set out in the accounts of that Company

The interests of the other director in office at 31 December 2005 in the capital of Lloyds TSB Group plc were

	At 31 December 2005		Options granted during year	At 1 January 2005	
	Shares	**Options**		Shares	Options
RN McIntyre	**17,388**	**8,441**	5,114	16,655	3,327

None of the directors had any other interest in the capital of Lloyds TSB Group plc or its subsidiaries

Directors' report
For the year ended 31 December 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 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 in the financial statements,

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 proper 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 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

Policy and practice on payment of creditors

The Company follows "The Better Payment Practice Code" published by the Department of Trade and Industry, regarding the making of payments to suppliers A copy of the code and information about it may be obtained from The DTI Publications Order Line 0845 0150010 quoting ref URN 04/606

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

As the Company owed no amounts to trade creditors as at 31 December 2005, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil (2004 nil)

By order of the Board

D JC

David Jarvis
Company Secretary

19 October 2006

Report of the independent auditors to the members of Scottish Business Finance Limited

We have audited the financial statements of Scottish Business Finance Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity 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 235 of the Companies Act 1985 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 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 its 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 2005 and of its profit and cash flows for the year then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

One Kingsway
Cardiff
CF10 3PW

24 October 2006

Income statement

Income statement for the year ended 31 December 2005

	Note	2005 £	2004 £
Interest income	4	**66,834**	103,153
Fee and commission expense	5		(36)
Other operating income	6	**2,408**	11,828
Other operating expenses	7	**(3,456)**	(15,658)
Operating profit	8	**65,786**	99,287
Taxation	11	**(19,733)**	(29,794)
Profit for the year attributable to equity shareholders		**46,053**	69,493

The notes on pages 10 to 17 are an integral part of these financial statements

Balance sheet
Balance sheet at 31 December 2005

	Note	2005 £	2004 £
ASSETS			
Loans and advances to customers	12	**2,718**	4,151
Other current assets	13	**1,283,922**	1,404,348
Deferred tax assets	16	**300**	170
Total assets		**1,286,940**	1,408,669
LIABILITIES			
Borrowed funds	14	**198,399**	233,113
Other current liabilities	15		115
Current tax liabilities		**19,638**	131,425
Total liabilities		**218,037**	364,653
EQUITY			
Share capital	17	**529,161**	550,327
Retained profits		**536,826**	490,773
Share Premium		**2,916**	2,916
Total equity		**1,068,903**	1,044,016
Total equity and liabilities		**1,286,940**	1,408,669

The notes on pages 10 to 17 are an integral part of these financial statements

The financial statements on pages 6 to 17 were approved by the Board of Directors and were signed on its behalf by

D K Potts
Director

19 October 2006

Statement of changes in equity
31 December 2005

	Share capital £	Share Premium £	Retained profits £	Total £
At 1 January 2004	550,327	2,916	421,280	974,523
Profit for the year			69,493	69,493
At 31 December 2004	550,327	2,916	490,773	1,044,016
Adjustment on transition to IAS 39	(21,166)			(21,166)
Adjusted balance at 1 January 2005	529,161	2,916	490,773	1,022,850
Profit for the year			46,053	46,053
At 31 December 2005	**529,161**	**2,916**	**536,826**	**1,068,903**

The notes on pages 10 to 17 are an integral part of these financial statements

Cash flow statement

Cash flow statement for the year ended 31 December 2005

	2005 £	2004 £
Cash flows from operating activities		
Profit before tax	**65,786**	99,287
Changes in operating assets and liabilities		
net decrease in loans and advances to customers	**1,433**	484,891
net decrease/(increase)in other assets	**120,426**	(676,263)
net decrease in other liabilities	**(115)**	(1,958)
deposits from banks		(36,276)
Cash generated from operations	**187,530**	(130,319)
Taxes paid via group relief	**(131,650)**	(26,425)
Net cash from operating activities	**55,880**	(156,744)
Cash flows from financing activities		
(Repayment of)/proceeds from borrowed funds	**(55,880)**	156,744
Net cash outflow from financing activities	**(55,880)**	156,744
Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year	========	========

The notes on pages 10 to 17 are an integral part of these 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 consistently applied to all the years presented, unless otherwise stated

1.1 Basis of preparation

The Company's ultimate parent Company adopted International Financial Reporting Standards ("IFRS") as adopted by the European Union in its financial statements for the year ended 31 December 2005 The Company has also adopted IFRS in the preparation of these financial statements for the year ended 31 December 2005 The financial statements have been prepared under the historical cost convention A summary of the more important accounting policies is set out below

The rules for first time adoption of IFRS are set out in IFRS 1 'First time Adoption of International Financial Reporting Standards' On 1 January 2004, the date of transition, the opening IFRS balance sheet position has been determined in accordance with IFRS 1 which requires IFRS accounting policies to be applied on a retrospective basis with certain exceptions and exemptions detailed below

Mandatory exception	**Impact**
Estimates	The Company's estimates at the date of transition are consistent with those under UK GAAP
Voluntary exemption	
Comparatives for financial instruments and designation of financial assets	The Company has chosen not to restate comparatives for IAS 32 and IAS 39, but to reflect the impact of these standards through adjustments to shareholders' equity as at 1 January 2005 The Company has applied UK GAAP to financial instruments for its 2004 comparatives

The disclosures required by IFRS1 concerning the transition from UK GAAP to IFRS are given in note 20 The effects of the changes in accounting policy due to conversion to IFRS are disclosed in the Statement of Changes in Equity

1 2 Income recognition

Interest income and expense are recognised in the income statement for all interest bearing financial instruments, including loans and advances, 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

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the agreement but not future credit losses The calculation includes all amounts received or paid by the Company that are an integral part of the overall return such as acceptance and, where relevant, early settlement fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

1 3 Fee and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate such as commission associated with the sale of insurance underwritten by a third party are generally recognised on an accruals basis when the service has been provided

1.4 Financial assets

All of the Company's financial assets are classified as loans and advances to customers at initial recognition

Loans and advances to customers are non derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable

Loans and advances to customers are accounted for at amortised cost using the effective interest method Loans and advances are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs Loans and advances are derecognised when the rights to receive cash flows from them have expired or where the Group has transferred substantially all risks and rewards of ownership

1.5 Impairment of financial assets

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 a financial asset or group of financial assets has become impaired Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the debt being restructured to reduce the burden on the borrower

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 present value of estimated future cash flows discounted at that asset's original effective interest rate If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable

If there is no objective evidence of individual impairment the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently

The method and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between the loss estimates and actual loss experience

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the income statement

When a loan or advance is uncollectible, it is written off against the related provision once all the necessary procedures have been completed and the amount of the loss has been determined Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement

1 6 Leases

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee, all other leases are classified as operating leases

When assets are held subject to a finance lease or hire purchase contract, the present value of the lease payments is recognised as a receivable within loans and advances to customers Finance lease income, comprising interest together with non contingent contractual fees, is recognised over the term of the lease using the effective interest rate method (before tax), reflecting a constant periodic rate of return

1 7 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition

1 8 Taxation, including deferred income taxes

Current 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 financial statements Deferred tax is determined using tax rates that have been enacted or substantially enacted 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 The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously

1 9 Dividends

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

2 Risk management policy

The Company's operations expose it to credit risk, liquidity risk and interest rate risk, it is not exposed to any significant foreign exchange risk Responsibility for the control of overall risk lies with the Board of Directors, operating within a management framework established by the intermediate parent, Lloyds TSB Asset Finance Division Limited, and the ultimate parent, Lloyds TSB Group plc The risks identified for the Company are limited given that the Company has ceased to write new business and the book is in an advanced state of run down

2 1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due Impairment provisions are provided for losses that have been incurred at the balance sheet date

The credit risk associated with instalment credit contracts is managed through the application of strict underwriting criteria, determined by the Lloyds TSB Asset Finance Division Limited credit committee and credit functions Significant credit exposures are measured and reported on a regular basis

3 Critical accounting estimates, and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

The directors do not consider there to be any critical accounting estimates in applying the Company's accounting policies

4 Interest income

	2005 £	2004 £
Interest income		
Lease and hire purchase receivable	**10,126**	55,577
Group interest income (see note 18)	**56,708**	47,576
	66,834	103,153

5 Fee and commission expense

	2005 £	2004 £
Fee and commission expense		
Other operating costs		36

6 Other operating income

	2005 £	2004 £
Other operating income	**2,408**	3,932
Bad debt recovered		7,896
Other operating income	**2,408**	11,828

7 Other operating expenses

	2005 £	2004 £
Management Fees (see note 18)	**3,456**	15,658

8 Operating profit

The following items have been included in arriving at operating profit

	2005 £	2004 £
Income		
Aggregate rentals receivable		
From hire purchase contracts	**10,126**	58,231
From finance lease contracts		(2,654)

Included in income are rebates of £nil (2004 £2,979) payable in respect of finance leases
Auditor's remuneration has been borne by the parent company

9 Staff costs

The Company did not directly employ any persons during the year (2004 none), accounting and administration services being provided by a fellow subsidiary undertaking

10 Directors' emoluments

No director received any fees or emoluments during the year (2004 £nil) The directors are employed by other companies in the Lloyds TSB Group and consider that their duties to this Company are incidental to their other activities within the group

11 Taxation

	2005 £	2004 £
a) Analysis of charge for the year		
UK corporation tax		
Current tax on profits for the year	**19,638**	26,425
Adjustments in respect of prior years	**225**	
Current tax charge	**19,863**	26,425
Deferred tax	**95**	3,369
Deferred tax in respect of prior years	**(225)**	
	19,733	29,794

The charge for tax on the profit for the year is based on a UK corporation tax rate of 30 per cent (2004 30 per cent)

b) Factors affecting the tax charge for the year

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 year is given below

	2005 £	2004 £
Profit before tax	**65,786**	99,287
Tax charge thereon at UK corporation tax rate of 30%	**19,736**	29,786
Factors affecting charge		
Non allowable items	**(3)**	8
Tax on profit on ordinary activities	**19,733**	29,794
Effective rate	**30%**	30%

12 Loans and advances to customers

	2005 £	2004 £
Advances under finance lease and hire purchase contracts	**18,712**	20,149
Gross loans and advances to customers	**18,712**	20,149
Less allowance for losses on loans and advances	**(15,994)**	(15,998)
Loans and advances to customers, net	**2,718**	4,151
of which		
Due within one year	**2,718**	4,151

Loans and advances to customers include hire purchase and finance lease receivables

	2005 £	2004 £
Gross investment in hire purchase and finance lease contracts, receivable no later than one year	**18,712**	31,427
Unearned future finance income on hire purchase and finance lease contracts		(11,278)
Net investment in hire purchase and finance lease contracts	**18,712**	20,149
The net investment in hire purchase and finance lease contracts may be analysed as follows no later than one year	**18,712**	20,149

13 Other current assets

	2005 £	2004 £
Amounts owed by group undertakings (see note 18)	**1,283,922**	1,404,348

14 Borrowed funds

	2005 Due within one year £	2005 Due after more than one year £	2004 Due within one year £	2004 Due after more than one year £
Borrowings from group undertakings (see note 18)	**177,233**		233,113	
Preference Shares		**21,166**		
	177,233	**21,166**	233,133	

15 Other current liabilities

	2005 £	2004 £
Other accruals		115

16 Deferred tax

The movement in the net deferred tax asset balance is as follows

	2005 £	2004 £
Restated at 1 January	**170**	3,539
Income statement (charge)/credit	**130**	(3,369)
At 31 December	**300**	170

The deferred tax (credit)/charge in the income statement comprises the following temporary differences

	2005 £	2004 £
Accelerated capital allowances	**(130)**	

Deferred tax assets and liabilities are comprised as follows

	2005 £	2004 £
Deferred tax assets		
Accelerated capital allowances	**300**	170

17 Share capital

	2005 £	2004 £
Authorised		
22,083,875 "A" preferred shares of 1p each		220,839
2,116,645 Ordinary shares of 25p each	**529,161**	529,161
	529,161	750,000
Issued, called up and fully paid·		
2,116,645 "A" preferred shares of 1p each		21,166
2,116,645 Ordinary shares of 25p each	**529,161**	529,161
	529,161	550,327

The immediate parent company is Lloyds UDT Limited The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also 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

Under UK GAAP no distinction was made between equity and non equity classes of shares, as all shares are held by the parent company With effect from 1 January 2005, following the implementation of IAS39, the "A" preferred shares have been reclassified as debt and included in Borrowed Funds (see note 20)

18 Related party transactions

Copies of the ultimate parent Company's 2005 annual report and accounts may be obtained from the Company Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN

A number of transactions are entered into with related parties in the normal course of business The outstanding balances at the year end and related expense and income for the year are as follows

	Group and associated companies	
	2005	2004
	£	£
Outstanding at 31 December		
Amounts due to Black Horse Limited	**(150,763)**	(15,656)
Amounts due from Lloyds TSB Asset Finance Division	**1,051,484**	1,184,956
Amounts due from Lloyds UDT Limited	**232,438**	219,392
Amounts due to Lloyds UDT Limited	**(26,470)**	(217,457)
Interest receivable		
Lloyds TSB Asset Finance Division	**56,708**	47,576
Management charges		
Black Horse Limited	**3,456**	15,658

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company Accordingly, key management comprise the directors of the Company and the members of the Lloyds TSB Asset Finance Division board which comprises the statutory directors of that company and certain other senior management There were no transactions between the Company and key management personnel during the current or preceding year Key management personnel are employed by other companies within the Lloyds TSB Asset Finance Division Limited sub group and consider that their services to the Company are incidental to the other activities within that sub group

19 Contingent liabilities and commitments

There were no contracted capital commitments or contingencies at the balance sheet date (2004 £nil)

20 Reconciliation of net assets, profit and cashflows under UK GAAP to IFRS

Changes in accounting policy adoption of IFRS standards

Scottish Business Finance Limited reported under UK GAAP in its previously published financial statements for the year ended 31 December 2004 Reporting under IFRS has not produced any changes to net assets or profit as previously reported under UK GAAP

IAS39 has been implemented at 1 January 2005 and as a result preference shares with a value of £21,166 previously classified as equity have been reclassified as debt in accordance with the requirements of the Standard