

MERCAT FINANCE LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 30 NOVEMBER 2002

COMPANY NUMBER: 119921



MERCAT FINANCE LIMITED
YEAR ENDED 30 NOVEMBER 2002
CONTENTS

Report of the Directors	1 - 4
Independent Auditor's Report	5
Profit and Loss Account	6
Balance Sheet	7
Notes to the Accounts	8 – 13

MERCAT FINANCE LIMITED
YEAR ENDED 30 NOVEMBER 2002
REPORT OF THE DIRECTORS

The Directors hereby submit their Report and the accounts for the year ended 30 November 2002.

Principal Activities

The principal activity of the company is the provision of finance and associated services.

Review of the business and future developments

The company's profit for the financial year is £200,000 (2001: loss £62,000). No dividend is proposed for the financial year (2001: nil).

The company has conducted its activities throughout the year in a satisfactory manner. No significant change in the company's activities is foreseen at the present time.

Directors

The Directors of the company during the year to 30 November 2002 were: -

W.G.Barclay (resigned 31 December 2002)
R.B.Hare

During the year no director had any beneficial interest in the share capital of the company or of any group undertaking other than in HBOS plc, the ultimate holding company, details of which are set out below.

Directors' beneficial interests in the ordinary shares of HBOS plc were as follows:-

Ordinary Shares of 25p each

	As at 1 December 2001	As at 30 November 2002
W.G. Barclay	53,912	110,616
R.B. Hare	13,841	17,709

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

REPORT OF THE DIRECTORS (continued)

Short-term Incentive Plan

Certain Directors have a conditional entitlement to shares arising from the annual incentive. Where the annual incentive for 2000/2001 was taken in shares and these shares are retained in trust for 3 years, the following shares will also be transferred to the Directors.

Ordinary Shares of 25p each Beneficially owned

	Granted in year	As at 30 November 2002
W.G. Barclay	2,332	2,332
R.B. Hare	1,165	1,165

Long term bonus scheme

Conditional awards of ordinary shares of HBOS plc were granted to Directors during the period to 30 November 2002 as follows:

Conditional Awards - Ordinary shares of 25p each

	As at 1 December 2001	Awards Granted	Awards Lapsed	As at 30 November 2002
W.G. Barclay	-	14,606	-	14,606
R.B. Hare	-	3,999	-	3,999

Conditional awards held by directors arise from the HBOS long term incentive plans and former Halifax long term plan, the detailed conditions of which are provided within the HBOS Annual Report and Accounts.

Long term incentive plan

Options to subscribe for ordinary shares of HBOS plc were exercised by Directors to 30 November 2002 as follows:

Options – Ordinary shares of 25p each

	As at 1 December 2001	Options Exercised	As at 30 November 2002
W.G. Barclay	139,000	51,000	88,000
R.B. Hare	37,050	-	37,050

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

REPORT OF THE DIRECTORS (continued)

Sharesave Plan

Options to subscribe for ordinary shares of HBOS plc under sharesave plans as at 30 November 2002 were as follows:

Options – Ordinary shares of 25p each

	As at 1 December 2001	Options Granted	Exercised/ lapsed	As at 30 November 2002
W.G. Barclay	-	1,723	-	1,723
R.B. Hare	7,372	1,121	-	8,493

HBOS Inland Revenue Approved Share Option Plan

Options in ordinary shares of HBOS plc, held under HBOS Inland Revenue Approved Share Option plan as at 30 November 2002 were as follows:

Options - Ordinary shares of 25p each

	As at 1 December 2002	Options Granted	Exercised/ lapsed	As at 30 November 2002
W.G. Barclay	-	-	-	-
R.B. Hare	-	2,555	-	2,555

Under the HBOS Inland Revenue Approved Share Option Plan, shares are granted to all HBOS employees, except certain senior executives.

Auditor

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the company in general meeting and the appointment of auditors annually are currently in force. The auditor, KPMG Audit Plc, will therefore be deemed to have been re-appointed at the end of the period of 28 days beginning with the day on which the copies of this report and accounts are sent to members unless a resolution is passed under section 393 of the Companies Act 1985 to the effect that their appointment be brought to an end.

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

REPORT OF THE DIRECTORS (continued)

Statement of Directors' responsibilities


The directors are required to prepare accounts for each financial year which comply with Part VII of the Companies Act 1985 and which give a true and fair view of the state of affairs of the company as at the end of the year and of the profit or loss for the year. The directors consider that in preparing the accounts on pages 6 to 13 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all Accounting Standards which they consider applicable have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the accounts comply with Part VII of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are satisfied that it is appropriate for these accounts to have been prepared on a going concern basis.

The directors acknowledge their responsibility for the maintenance of systems of internal control, the effectiveness of which they regularly review. These controls are designed to provide reasonable (but cannot provide absolute)assurance on the reliability of the company's systems for identification and management of risk, the maintenance of proper control over the assets and liabilities of the company and the accuracy and reliability of the company's information system.

By order of the Board


P. Gittins
Secretary

Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh
EH3 9BN

3 JUNE 2003

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERCAT FINANCE LIMITED

We have audited the financial statements on pages 6 to 13.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the company's affairs as at 30 November 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

12 June 2003

**KPMG Audit Plc
Chartered Accountants
Registered Auditor**

**St James Square
Manchester
M2 6DS**

MERCAT FINANCE LIMITED
YEAR ENDED 30 NOVEMBER 2002
PROFIT AND LOSS ACCOUNT

	Notes	2002 £'000	2001 £'000
Continuing			
Turnover	2	346	(37)
Finance and trading costs		<u>(45)</u>	<u>(42)</u>
Gross profit / (loss)		301	(79)
Administrative expenses		<u>(16)</u>	<u>(12)</u>
Profit / (loss) on ordinary activities before taxation	3	285	(91)
Tax on profit /(loss) on ordinary activities	4	<u>(85)</u>	<u>29</u>
Retained profit / (loss) for the financial year		200	(62)
Balance brought forward		<u>(81)</u>	<u>(19)</u>
Balance carried forward		<u>119</u>	<u>(81)</u>

There are no recognised gains and losses other than those shown above.

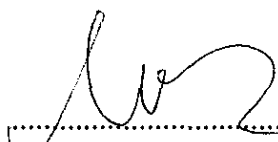
The notes on pages 8 to 13 form part of the financial statements.

MERCAT FINANCE LIMITED
YEAR ENDED 30 NOVEMBER 2002
BALANCE SHEET

	Notes	2002 £'000	2001 £'000
Current assets			
Debtors : receivable within one year	5	137	1,616
: receivable after one year	5	396	396
		<u>533</u>	<u>2,012</u>
Creditors: payable within one year	6	(361)	(2,082)
Net current assets / (liabilities)		<u>172</u>	<u>(70)</u>
Provision for liabilities and charges			
Deferred taxation	7	(53)	(11)
Total assets less current liabilities		<u>119</u>	<u>(81)</u>
Called up share capital	8	-	-
Profit and loss account		119	(81)
Shareholders' funds	9	<u>119</u>	<u>(81)</u>

The notes on pages 8 to 13 form part of the financial statements.

Approved by the Board of Directors on 23rd May 2003 and signed on its behalf by



R.B. Hare
Director

MERCAT FINANCE LIMITED
YEAR ENDED 30 NOVEMBER 2002
NOTES TO THE ACCOUNTS

1. Accounting Policies

Basis of preparation

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with applicable Accounting Standards and with S226 of, and schedule 4 to, the Companies Act 1985 and in compliance with applicable Statements of Recommended Accounting Practice.

The parent has indicated its intention to continue to provide sufficient finance to the group to enable it to continue trading for at least one year from the date of approval of these accounts.

Cashflow Statement

As a wholly owned subsidiary undertaking the company is exempt from including a statement of cash flows in its accounts. HBOS plc has included a consolidated statement of cash flows in its consolidated accounts.

Deferred taxation

Deferred taxation is provided on the full provision method on those timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not recognised on permanent timing differences.

Deferred tax assets are recognised only to the extent that they are considered recoverable.

Previously deferred tax was provided on the partial provision basis in accordance with SSAP 15. This change in accounting policy has not necessitated a prior year adjustment.

Finance leases

Assets leased to customers which transfer substantially all the risks and rewards of ownership to the customer are classified as finance leases. The net investment in finance leases represents total minimum payments less gross earnings allocated to future periods.

Income from finance leases is credited to the profit and loss account using a method to give a constant periodic return on the net cash investment.

Credit is taken in each accounting period for finance charges received and receivable after eliminating from the balance, at the conclusion of each such period, the unearned finance charges as calculated using the "investment period method".

The earnings element of leasing rentals is credited to revenue, after making a deduction for certain initial expenses, in proportion to the funds invested to the related contracts.

Rentals on leases in secondary periods are recognised on a cash received basis.

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

NOTES TO THE ACCOUNTS (continued)

1. Accounting Policies (continued)

Provisions for bad and doubtful debts

Specific provisions are calculated using a formulae driven approach. This assessment is made using statistical techniques developed based on previous experience. These formulae take into account factors such as the length of time that payments from the customer are overdue, the value of any collateral held and the level of past and expected losses, in order to derive an appropriate provision.

A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified, but which are known from experience to be present in portfolios of loans and advances. The level of general provision is determined in light of past experience, current economic and other factors affecting the business environment and management's monitoring and control procedures, including the scope of specific provisioning procedures.

Specific and general provisions are deducted from loans and advances. Provision made during the year, less amounts released and recoveries of amounts written off in previous years are charged to the profit and loss account.

Interest payable

Interest payable on funding from group undertakings is regarded as an operating cost and is included in operating profit in the profit and loss account.

2. Turnover

Turnover, all of which arose from activities within the United Kingdom, represents finance charges earned on leasing agreements and income from associated services.

The turnover and pre-tax result are attributable to one continuing activity, the provision of finance and associated services.

3. Profit /(loss) on ordinary activities before taxation

	2002 £'000	2001 £'000
Profit /(loss) on ordinary activities before taxation is stated after crediting:		
Finance lease rentals	<u>45</u>	<u>279</u>
And after charging:		
Intra group interest	<u>18</u>	<u>47</u>

Auditor's remuneration is borne by Capital Bank plc.

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

NOTES TO THE ACCOUNTS (continued)

4. Tax on profit on ordinary activities

a. Analysis of tax charge in the year

	2002		2001	
	£'000	£'000	£'000	£'000
Current tax				
Corporation tax based on a corporate tax rate of 30%		43		11
Deferred tax				
Origination and reversal of timing differences	43		(40)	
Adjustments in respect of prior years	(1)		-	
		42		(40)
Tax on profits from ordinary activities		85		(29)

b. Factors affecting tax charge for the year

The current tax charge for the year is lower (2001: higher) than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below.

	2002 £'000	2001 £'000
Profit/loss on ordinary activities before taxation	285	(91)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	86	(27)
Effects of:		
Depreciation for the year in excess of capital allowances	(43)	39
Other timing differences	-	(1)
Current tax charge for the year	43	11

c. Factors that may affect future tax charges

The company expects its effective tax rate in future years to be broadly in line with the standard rate of corporation tax in the UK.

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

NOTES TO THE ACCOUNTS (continued)

5. Debtors

Receivable within one year

	2002	2001
	£'000	£'000
Finance Lease Debtors	27	446
Amounts owed by group undertakings	-	1,134
Taxation	110	-
Other Debtors	-	36
	<u>137</u>	<u>1,616</u>

Receivable after one year

	2002	2001
	£'000	£'000
Finance Lease Debtors	<u>396</u>	<u>396</u>

6. Creditors

Amounts falling due within one year

	2002	2001
	£'000	£'000
Amounts due to group undertakings	346	1,560
VAT	4	70
Taxation	-	21
Other creditors	11	431
	<u>361</u>	<u>2,082</u>

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

NOTES TO THE ACCOUNTS (continued)

7. Deferred Taxation

	2002 £'000	2001 £'000
Deferred tax provision at the beginning of the year	11	51
Charge/ (credit) for the year (note 4)	43	(40)
Prior year credit (note 4)	(1)	-
Deferred tax liability at the end of the year	<u>53</u>	<u>11</u>
Accelerated capital allowances	54	11
Other timing differences	(1)	-
Deferred tax liability	<u>53</u>	<u>11</u>

8. Share Capital

Ordinary shares of £1 each	2002 £	2001 £
Authorised , allotted, called up and fully paid	<u>100</u>	<u>100</u>

9. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Shareholders' funds at the beginning of the year	(81)	(19)
Profit / (loss) for the financial year	200	(62)
Shareholders' funds at the end of the year	<u>119</u>	<u>(81)</u>

10. Related party transactions

Under FRS 8 Related Party Disclosures, the company is exempt from disclosing transactions with other companies within the HBOS plc group where 90% or more of the voting rights are held within the HBOS plc group.

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

NOTES TO THE ACCOUNTS (continued)

11. Ultimate parent undertaking

HBOS plc is the company's ultimate parent undertaking and parent of the largest group of undertakings for which group accounts (including the company's results) are drawn up. The Governor and Company of Bank of Scotland is the parent of the smallest group of undertakings for which group accounts (including the company's results) are drawn up.

Copies of HBOS plc's accounts and Bank of Scotland's accounts can be obtained from The Mound, Edinburgh, EH1 1YZ.

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

TRADING ACCOUNT

	2002 £	2002 £	2001 £	2001 £
Leasing rental income	44,572		279,538	
Fees and additional charges	-		2,539	
Profit on sale of leased assets	<u>344,530</u>		<u>(82,871)</u>	
		389,102		199,206
Less Depreciation of finance leases	<u>(42,362)</u>		<u>(236,304)</u>	
		(42,362)		(236,304)
Total earned charges		<u>346,740</u>		<u>(37,098)</u>
Less expenses				
Other interest	-		(523)	
Intra group interest	18,332		46,813	
Management charge				
Intermediate parent undertaking	15,695		11,731	
Bad debts, less recoveries	27,900		-	
Other costs	<u>73</u>	<u>(62,000)</u>	<u>-</u>	<u>(58,021)</u>
		284,740		(95,119)
Profit / (loss) before provisions for bad and doubtful debts				
Decrease/ (increase) in provisions for bad and doubtful debts:				
General		320		3,521
Operating profit / (loss)		<u>285,060</u>		<u>(91,598)</u>

MERCAT FINANCE LIMITED

YEAR ENDED 30 NOVEMBER 2002

ANALYSIS OF THE PROFIT AND LOSS ACCOUNT

	2002 £	2001 £
Turnover		
Leasing rental income	44,572	279,538
Fees and additional charges	-	2,539
Depreciation	(42,362)	(236,304)
Profit / (loss) on sale of leases assets	344,530	(82,871)
Per profit and loss account	346,740	(37,098)
Finance and trading costs		
Intra group interest	18,332	46,813
Other interest	-	(523)
Bad debts, less recoveries	27,900	-
Increase/(decrease) in provisions for bad and doubtful debts:		
General	(320)	(3,521)
Per profit and loss account	45,912	42,769
Administrative expenses		
Other costs	73	-
Management charge: Intermediate parent undertaking	15,695	11,731
Per profit and loss account	15,768	11,731