

LLOYDS INVESTMENT BONDS LIMITED

31 December 2005



Member of Lloyds TSB Group

LLOYDS INVESTMENT BONDS LIMITED

25 Gresham Street London EC2V 7HN

DIRECTORS

A J Cumming
P Higgins
M W Joseph
R F Pelly
A B Vowles (Alternate: A M Basing)

SECRETARY

S Slattery

AUDITORS

PricewaterhouseCoopers LLP

REGISTERED OFFICE

25 Gresham Street
London EC2V 7HN

REGISTERED NUMBER

2468722

REPORT OF THE DIRECTORS

REVIEW OF BUSINESS

During the year the principal activity of the Company was investment, this is likely to continue for the foreseeable future. The directors consider the results for this year to be satisfactory.

RESULTS

The loss after taxation for the year ended 31 December 2005 amounted to £18,054,000 (2004: £6,880,000 profit) as set out in the income statement on page 5.

DIRECTORS

The names of the directors of the company are shown on page 1. The following changes in directors have taken place during the year:

	Appointed	Resigned
A R Foad		31 October 2005
M A Grant*		16 June 2005
P Higgins	7 September 2005	
P B Miles		26 August 2005
R F Pelly	17 November 2005	

* alternate to A J Cumming

All the directors are also directors of Lloyds TSB Leasing Limited, the immediate parent company, and reference to the interests of those who were directors at the end of the year in the capital of Lloyds TSB Group plc, the ultimate parent company, and its subsidiaries is made in the report and accounts of Lloyds TSB Leasing Limited.

RESPONSIBILITIES OF DIRECTORS

Company law requires the directors to prepare financial statements for each financial year 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 of the company for that year. 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 accounting standards 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 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.

LLOYDS INVESTMENT BONDS LIMITED

REPORT OF THE DIRECTORS

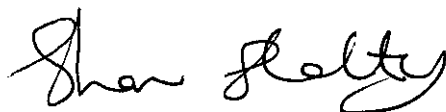
POLICY AND PRACTICE ON PAYMENT OF CREDITORS

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 Orderline 0870-1502500 (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 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.

On behalf of the board



S Slattery
Secretary

27 October 2006

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LLOYDS INVESTMENT BONDS LIMITED

We have audited the financial statements of Lloyds Investment Bonds 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 Shareholders' 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 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 2005 and of its loss 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

The Quay
30 Channel Way
Ocean Village
Southampton
SO14 3QG

30 October 2006

LLOYDS INVESTMENT BONDS LIMITED

INCOME STATEMENT

For the year ended 31 December 2005

	Note	2005 £000	2004 £000
Finance costs	2	(14,670)	(15,459)
Foreign exchange (loss)/gain		(10,201)	17,618
		<hr/>	<hr/>
(Loss)/profit before tax	3	(24,871)	2,159
Taxation credit	4	6,817	4,721
		<hr/>	<hr/>
(Loss)/profit for the year		(18,054)	6,880
		<hr/>	<hr/>

The accompanying notes are an integral part of the Financial Statements.

LLOYDS INVESTMENT BONDS LIMITED

BALANCE SHEET
As at 31 December 2005

	Note	2005 £000	2004 £000
Assets			
Non-current assets			
Investment in subsidiary undertakings	6	281,871	281,871
Deferred tax	10	1,441	-
		<u>283,312</u>	<u>281,871</u>
Current assets			
Amounts owed by group companies	7	28,969	22,386
		<u>28,969</u>	<u>22,386</u>
Total assets		<u>312,281</u>	<u>304,257</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	8	331,580	274,827
Deferred tax	10	-	1,197
		<u>331,580</u>	<u>276,024</u>
Total liabilities		<u>331,580</u>	<u>276,024</u>
Equity			
Share capital	9	10	10
Other reserves	11	(6,154)	-
Retained earnings	12	(13,155)	28,223
		<u>(19,299)</u>	<u>28,223</u>
Total liabilities and equity		<u>312,281</u>	<u>304,257</u>

The directors approved the accounts on 27 October 2006.


R F Pelly
Director

The accompanying notes are an integral part of the Financial Statements.

LLOYDS INVESTMENT BONDS LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital and premium £000	Other reserves £000	Retained profits £000	Total £000
Balance at 1 January 2004	15	10	-	18,345	18,355
Currency translation differences		-	-	2,998	2,998
Profit for the year		-	-	6,880	6,880
Balance at 31 December 2004	15	10	-	28,223	28,233
Adjustments on transition to IAS 39	11	-	(11,215)	-	(11,215)
Restated balance at 1 January 2005	15	10	(11,215)	28,223	17,018
Currency translation differences	11	-	(1,526)	(23,324)	(24,850)
Loss for the year		-	-	(18,054)	(18,054)
		10	(12,741)	(13,155)	(25,886)
Changes in fair value of cash flow hedges	11	-	6,587	-	6,587
Balance at 31 December 2005		10	(6,154)	(13,155)	(19,299)

The accompanying notes are an integral part of the Financial Statements.

CASHFLOW STATEMENT

For the year ended 31 December 2005

	Note	2005 £000	2004 £000
Net cash flow from operating activities	13	(1,459)	8,012
Net increase in cash and cash equivalents		(1,459)	8,012
Cash and cash equivalents at the beginning of the year		18,726	10,714
Cash and cash equivalents at the end of the year		17,267	18,726

The accompanying notes are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

The Company's ultimate parent company, Lloyds TSB Group plc, adopted International Financial Reporting Standards ('IFRS') in its financial statements for the year ended 31 December 2005. In accordance with the Companies Act 1985, the Company has also adopted IFRS in the preparation of these financial statements for the year ended 31 December 2005.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and all derivative contracts, on the basis of IFRS.

There are no critical areas which require disclosure where management have exercised judgement in applying the Company's accounting policies or in determining accounting estimates.

Further details on the implementation of IFRS for the Company are given in note 15.

(a) Investment

Investments in subsidiary undertakings are stated at the historical cost, less any provisions for impairment.

(b) Taxation

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 financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which 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. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects 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.

(c) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, bank overdrafts 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. See notes 7 and 8.

(d) Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

(e) Financial risk management

The Company is exposed through its operations to a variety of financial risks that include credit risk and interest rate risk. Risk management is performed by various Committees established by its ultimate parent, Lloyds TSB Group plc for the management of these risks.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)**(f) Foreign currency translation**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in sterling, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges.

Comparatives represented in UKGAAP in note 15 are converted from USD to GBP for the first time and thus there is a foreign exchange reserves account.

2 Finance costs

	2005 £000	2004 £000
Interest due to other group companies on bank loans, overdrafts and interest rate swaps	14,670	15,459

3 Loss before tax

Audit fees for the company are borne by the immediate parent company. The company has no employees and the directors received no remuneration in respect of their services to the company.

4 Taxation

	2005 £000	2004 £000
(a) The charge for the year comprises:		
Group relief (receivable)/payable on current taxation profit for the year	(6,817)	(4,721)
Total group relief (receivable)/payable for year (Note 4 (b))	(6,817)	(4,721)

LLOYDS INVESTMENT BONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Taxation (continued)

(b) Factors affecting the group relief (receivable)/payable for the year

The group relief (receivable)/payable for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £000	2004 £000
Loss/(gain) on ordinary activities before taxation	24,871	(2,159)
Tax on loss on ordinary activities at the standard rate of corporation tax	(7,461)	648
Non – taxable FX movements	644	(5,369)
Total group relief (receivable)/payable for year (Note 4 (a))	(6,817)	(4,721)

5 Derivative financial instruments

The principal derivatives used by the Company are designated as cash flow hedges and are detailed below.

	Contract/notional Amount £000	Fair values	
		Assets £000	Liabilities £000
31 December 2005			
Interest rate swaps	204,952	576	9,369
31 December 2004			
Interest rate swaps	256,420	-	8,946

6 Investment in subsidiary undertakings

	2005 £000	2004 £000
At 1 January and 31 December	281,871	281,871

The company holds the following investment:

	2005 £	2004 £
Silentdale Limited		
Ordinary non-voting shares of £0.25 each	50	50
6% preference shares of £0.25 each	50	50
	100	100

NOTES TO THE FINANCIAL STATEMENTS

6 Investment in subsidiary undertakings (continued)

	2005 US\$	2004 US\$
Silentdale Limited		
Redeemable non-voting shares of US\$1.00	418,615,689	418,615,689

The company was incorporated in the United Kingdom and is 100% owned by Lloyds Investment Bonds Limited.

7 Amounts owed by group companies

	2005 £000	2004 £000
Amounts falling due within one year:		
Bank deposits	21,389	18,726
Amounts due from fellow subsidiary	3,841	2,282
Group relief receivable	3,162	1,378
Derivative financial instruments	577	-
	<hr/> 28,969	<hr/> 22,386

For further details please refer to note 14.

8 Amounts owed to group companies

	2005 £000	2004 £000
Amounts falling due within one year:		
Bank overdraft	4,122	-
Bank borrowings	248,484	272,908
Derivative financial instruments	9,369	-
Amounts due to subsidiary undertaking	68,619	-
Interest payable	986	1,919
	<hr/> 331,580	<hr/> 274,827

For further details please refer to note 14.

9 Share capital

	2005 £000	2004 £000
Authorised, allotted and issued: 10,000 ordinary shares of £1 each	10	10

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent company of the largest group of companies for which group accounts are drawn up and of which the company is a member. Lloyds TSB Bank plc is the parent company of the smallest such group of companies. 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 7HN.

The immediate parent company is Lloyds TSB Leasing Limited.

LLOYDS INVESTMENT BONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and the prior period.

	2005 £000	2004 £000
At 1 January	1,197	1,197
Implementation of IAS 32/39	(4,807)	-
	<hr/>	<hr/>
Restated amount at 1 January	(3,610)	1,197
Amount credited to equity in respect of cashflow hedges	2,169	-
	<hr/>	<hr/>
At 31 December	(1,441)	1,197
	<hr/>	<hr/>

There is no deferred tax charge in the income statement for the year.

Deferred tax liabilities are comprised as follows:

	2005 £000	2004 £000
Cash flow hedge reserve	(2,638)	-
Deferred tax on IFRS foreign exchange adjustment	1,197	1,197
	<hr/>	<hr/>
	(1,441)	1,197
	<hr/>	<hr/>

11 Other reserves

	2005 £000
Reserve in respect of cash flow hedges, net of tax	(6,154)
	<hr/>
The movements in the reserve were as follows:	
At 1 January	-
Adjustment on implementation of IAS 32/39	(11,215)
	<hr/>
As restated at 1 January	(11,215)
Currency translation differences	(2,180)
Deferred tax thereon	654
Change in fair value of cash flow hedges	9,410
Deferred tax thereon	(2,823)
	<hr/>
At 31 December	(6,154)
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

12 Retained earnings

	2005 £000	2004 £000
At 1 January	28,223	18,355
Currency translation differences	(23,324)	2,998
Net profit for the year	(18,054)	6,880
	<hr/>	<hr/>
At 31 December	(13,155)	28,223
	<hr/>	<hr/>

13 Notes to the cash flow statement

	2005 £000	2004 £000
Profit from operations	(24,871)	2,159
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(24,871)	2,159
Decrease/(increase) in receivables	(2,134)	(1,004)
Increase/(decrease) in payables	43,812	(1,309)
	<hr/>	<hr/>
Cash generated by operations	16,807	(154)
Group relief received	5,058	5,168
Other non-cash movements	(23,324)	2,998
	<hr/>	<hr/>
Net cash flow from operating activities	(1,459)	8,012
	<hr/>	<hr/>

14 Related party transactions

In respect of related party transactions, the outstanding balances receivable/(payable) as at 31 December were as follows:

Nature of transaction	Related party	2005 £000	2004 £000
Bank deposits	Intermediate parent undertaking	21,389	18,726
Bank overdraft	Intermediate parent undertaking	(4,122)	-
Bank borrowings	Intermediate parent undertaking	(248,484)	(272,908)
Interest payable	Intermediate parent undertaking	(986)	(1919)
Derivative financial instruments	Intermediate parent undertaking	(8,792)	-
Amounts due from fellow subsidiary	Fellow subsidiary	2,509	1,096
Amounts due from subsidiary	Silentdale Limited	1,332	1,186
Amounts due to subsidiary	Silentdale Limited	(68,619)	-
Group relief receivable	Intermediate parent undertaking	3,162	1,378

The bank deposits and bank overdraft are non-interest bearing and are repayable on demand. The bank borrowings are interest bearing and are repayable on maturity. During the year rates of interest of up to 4.50% (2004: 2.50%) were charged on the borrowings. Finance costs of £14,670,000 (2004: £15,459,000) were incurred during the year.

NOTES TO THE FINANCIAL STATEMENTS

14 Related party transactions (continued)

Please refer to note 5 for further information on the derivative financial instruments.

The amounts due from the company's fellow subsidiary are non interest bearing and repayable on demand. The amounts due from Silentdale Limited are non-interest bearing and repayable on maturity. The amounts due to Silentdale Limited are interest bearing and repayable on maturity.

The company received group relief of £5,060,250 (2004: £5,155,000) during the year from Lloyds TSB Bank plc.

15 Adoption of International Financial Reporting Standards

This is the first year that the company has presented its financial statements under IFRS. IFRS differs in certain respects from the Company's previous accounting policies, which complied with UK Generally Accepted Accounting Principles ('UK GAAP'). Set out below are explanations and reconciliations showing the effect of adoption of IFRS.

Accounting changes effective from 1 January 2004 and which impact 2004 comparatives:

(a) Effects of changes on foreign exchange rates (IAS 21)

IFRS requires accounts to be prepared in the currency of the primary economic environment of the company. This differs from UKGAAP which allowed functional currency to be determined by the currency of the majority of transactions in the company. This results in exchange movements on the change in functional currency from USD to Sterling

(b) Deferred tax (IAS 12)

The change in the deferred tax liability is a direct result of the foreign exchange movements recognised on the adoption of IAS 21.

Accounting changes effective from 1 January 2005 and which do not affect 2004 comparatives:

(a) Derivative financial instruments and hedging (IAS 39)

The company enters into derivative contracts to hedge cash flows arising from leased assets. Under UK GAAP hedging derivatives were accounted for on an accruals basis. IAS 39 requires that all derivative contracts are carried at fair value on the Company's balance sheet and, where hedge accounting has been applied, all movements in the fair value of these contracts are credited or charged directly to equity.

NOTES TO THE FINANCIAL STATEMENTS

15 Adoption of International Financial Reporting Standards (continued)

The following disclosures are required at the date of transition being 1 January 2004:

Restated Company balance sheet (reconciliation of equity) at 1 January 2004

	UK GAAP £000	IAS21 £000	IAS17 £000	Dividend £000	IAS12 £000	IFRS £000
Plant & equipment	-	-	-	-	-	-
Investments	281,871	-	-	-	-	281,871
Finance Lease Receivables	-	-	-	-	-	-
Amounts owed by group companies	14,277	-	-	-	-	14,277
Other debtors	-	-	-	-	-	-
Total assets	296,148	-	-	-	-	296,148
Deferred taxation	-	-	-	-	(1,197)	(1,197)
Amounts owed to group companies	(276,596)	-	-	-	-	(276,596)
Other creditors	-	-	-	-	-	-
Accruals & deferred fee income	-	-	-	-	-	-
Total liabilities	(276,596)	-	-	-	(1,197)	(277,793)
Total assets less total liabilities	19,552	-	-	-	(1,197)	18,355
Issued capital	10	-	-	-	-	10
Retained earnings	(28,590)	48,132	-	-	(1,197)	18,345
Foreign exchange reserve	48,132	(48,132)	-	-	-	-
Total equity	19,552	-	-	-	(1,197)	18,355

NOTES TO THE FINANCIAL STATEMENTS

15 Adoption of International Financial Reporting Standards (continued)

The last financial statements were for the year ended 31 December 2004. The impact of restating these financial statements for IFRS is as follows:

Restated Company income statement (reconciliation of profit) for the year ended 31 December 2004

	UK GAAP £000	IAS21 £000	IAS17 £000	Dividends £000	IAS12 £000	IFRS £000
Finance income	-	-	-	-	-	-
	-	-	-	-	-	-
Interest income	-	-	-	-	-	-
Dividends receivable from subsidiaries	-	-	-	-	-	-
Foreign exchange (loss)/gain	-	17,618	-	-	-	17,618
	-	-	-	-	-	-
Interest payable and similar charges	(15,459)	-	-	-	-	(15,459)
Administrative expenses	-	-	-	-	-	-
Profit before tax	(15,459)	17,618	-	-	-	2,159
Taxation	4,721	-	-	-	-	4,721
Profit after tax	(10,738)	17,618	-	-	-	6,880

NOTES TO THE FINANCIAL STATEMENTS

15 Adoption of International Financial Reporting Standards (continued)

Restated Company balance sheet (reconciliation of equity) at 31 December 2004

	UK GAAP £000	IAS21 £000	IAS17 £000	Dividends £000	IAS12 £000	IFRS £000
Plant & equipment	-	-	-	-	-	-
Investments	281,871	-	-	-	-	281,871
Finance lease receivables	-	-	-	-	-	-
Amounts owed by group companies	22,386	-	-	-	-	22,386
Other debtors	-	-	-	-	-	-
Total assets	304,257	-	-	-	-	304,257
Deferred taxation		-	-	-	(1,197)	(1,197)
Amounts owed to group companies	(274,827)	-	-	-	-	(274,827)
Other creditors	-	-	-	-	-	-
Accruals & deferred fee income	-	-	-	-	-	-
Total liabilities	(274,827)	-	-	-	(1,197)	(276,024)
Total assets less total liabilities	29,430	-	-	-	(1,197)	28,233
Issued capital	10	-	-	-	-	10
Retained earnings	(36,330)	65,750	-	-	(1,197)	28,223
Foreign exchange reserves	65,750	(65,750)	-	-	-	-
Total equity	29,430	-	-	-	(1,197)	28,233