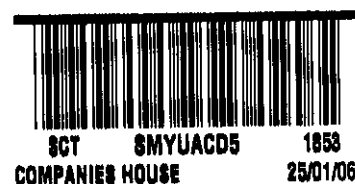


Student Loans Company Limited

**Directors' report and financial
statements**

Registered number 2401034

31 March 2005



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Chairman's statement

The Directors' Report and company financial statements below cover the activities of the Company for the year ended 31 March 2005.

The numbers of loans processed by the Company under the Student Finance Scheme continued to grow. Just over 843,000 students had received loans for the academic year 2004/2005 as at 31 March 2005 (835,000 previous academic year). The final number projected for the end of the academic year is approximately 856,000 (848,000 previous academic year).

Of these, 725,748 were processed through the new single computer system linking the Local Education Authorities in England and Wales with SLC. The payment of first instalments by Bankers Automated Clearing System (BACS) transfer continued to increase with over 440 of the UK's Higher Education Institutions now using this system which was designed and implemented by SLC.

For the tax year beginning April 2004, a further 271,000 borrowers had been notified to the Inland Revenue as potentially due for repayment, subject to the relevant income thresholds being met (261,000 last year). In total, over 1.1 million borrowers are now eligible to repay Income Contingent loans. As this scheme matures, progress continues to be made in improving the operation of the scheme for students leaving higher education and entering employment.

The number of students applying for loans under the old mortgage style loan scheme reduced to 243 for the academic year 2004/2005 as at 31 March 2005 (1,000 previous academic year). Mortgage style loan accounts coming into repayment are increasingly being offset by accounts becoming fully repaid. By March this year, borrowers in the retained portfolio had repaid some 88.4% of the total amount due to be repaid under the mortgage style loan scheme.

This was the last year of Hardship Loans, which were paid to students in financial difficulty. In total, the Company paid over 13,500 of these for the academic year as at 31 March 2005 (previous academic year 49,000). For academic year 2004/2005, nearly 1,700 loans were paid to part-time students as at 31 March 2005 (10,000 previous academic year).

At 31 March 2005, the Company was responsible for administering loan accounts for almost 2.8 million customers (most of whom have multiple loan accounts) on behalf of the Government and the private sector owner, Finance for Higher Education (FFHE), with a total value of some £16.5 billion, compared with £14.6 billion last year.

The activities of the Company for the year ended 31 March 2005 fall into two broad areas: business as usual and development work in preparation for major future change.

Our business as usual performance continued to strengthen as a result of our staff training programmes. Again, customer service levels improved and we now benchmark these against comparable private sector organisations. The ratings we achieve in our customer satisfaction surveys show that we deliver satisfactory service in the view of more than 91% of our customers. We will continue with our efforts to improve this figure. In addition to staff development, initiatives undertaken during the year in this area include improvements in our telephone equipment and improved printing and mailing facilities coupled with higher standards of quality control.

We operate two schemes for repayment of student loans. For customers who took out loans before 1998, repayment is direct to the Company through the mortgage style scheme. From the customer's perspective, this has the advantage that we are able to credit their account immediately a repayment is made. For borrowers after 1998, repayment is usually through the Income Contingent Repayment scheme whereby repayments are collected through the tax system. As a result, repayments can only be credited to customers' accounts when the Company is notified of deductions from pay by the Inland Revenue and because of the way the tax system works, this may be some time after the actual deductions are made. Interest, however, is only charged up to the date when the deduction from pay is made.

Chairman's statement *(continued)*

We have over 3 million customers and, as I have said in previous Chairman's statements, sometimes we do get things wrong. When this happens, our priority is to put things right as quickly as possible and, once this is done, we do review why the problem arose in the first place and, wherever possible, change processes and procedures to prevent the same thing happening again.

With regard to future developments, our priority over the last year was the national implementation of what is known as the 'Single System' for administering student loans in England & Wales. Going forward, we will build on this success by improving the system and its associated business processes based on the results of its first year of implementation. We will also look to increase the numbers of students applying on line.

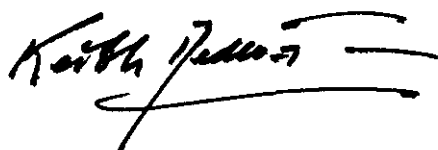
Looking to the future, our main deliverables arise from the implementation of loans for variable fees under the 2004 Higher Education Act and the increasing separation of education policies by the devolved administrations.

This year also saw us extend our operations into the secondary education sector. We were very pleased to have the opportunity to design and implement the Education and Maintenance Allowance schemes for Northern Ireland and Wales. We hope in the future to be able to offer government agencies and the devolved administrations a range of services using our capabilities in the area of assessing amounts to be paid, making payments and where appropriate, collecting money due.

Turning to the Main Board itself, we were very sad to learn in October of the untimely death of Brian Booth, our longest serving non-executive board member. He was a highly respected and valued member of the team, whose wisdom has helped guide this organisation since 1998. The process of finding a replacement resulted in the appointment on 1st March 2005 of Ian Dickson, who until recently was the Finance Director for the Export Credit Guarantee Department (ECGD). We welcome him to the Board of the Company as a Non-Executive Director.

Except where the Company's status as a state-owned business precludes it, the Company complies fully with the revised Combined Code on corporate governance, which applied from April 2004, including a formal annual evaluation of the performance of the Board.

The successful operation and growth of the Company depends on many factors, not least of which is the support, expertise and assistance we receive from our colleagues within the DfES, the Scottish Executive, DELNI and the Welsh Assembly. I would like to record my thanks to them. Finally, I wish to extend my thanks to my non-executive colleagues and the management and employees of SLC for their efforts during what was a demanding year for the Company.



Keith Bedell-Pearce
Chairman

28 June 2005

Directors' report

The directors have pleasure in submitting their annual report and the financial statements of the Company for the year ended 31 March 2005. The financial statements have been prepared in accordance with the Companies Act 1985 as augmented, where appropriate, in respect of additional information as directed by the Secretary of State for Education and Skills. This has been done with the consent of the Treasury, as set out in the Accounts Direction given by the Secretary of State for Education and Skills, with the approval of the Treasury, in accordance with the Financial Memorandum of 4 May 1999.

Statutory background and history

The student loans scheme was introduced by the Education (Student Loans) Act 1990 and the Education (Student Loans) (Northern Ireland) Order 1990. The Company was established to administer this scheme within the policy context and legislative framework laid down by the government. It was incorporated as a private limited company in 1989 and commenced trading in September 1990. The Company is subject to the provisions of the Companies Act 1985 and, in addition, is required to operate within the limits of a financial memorandum between the Company and the government. The Company was officially designated a Non Departmental Public Body ('NDPB') from 1 April 1996, thus clarifying its status as a government-owned body.

Review of business and future developments

The Student Financial Support scheme has seen large scale developments in its technical and business administration processes. During the last year, SLC launched a customer portal which allows students from England and Wales to apply for support electronically and the Company completed the 'roll out' of the LEA Portal – the single computer system linking together the Student Loans Company and all 172 Local Education Authorities. SLC designed and built both of these, the single system having been piloted a year earlier by six authorities. To support this, we established a new contact centre to handle enquiries from customers on behalf of the LEAs. This integrated project has taken two years to deliver, was a major challenge for the Student Loans Company and was achieved through extensive IT development, business redesign and collaboration with all LEAs across England and Wales. We will continue to enhance the system over the coming year, taking on board the experiences learned during its live operation. It is now our intention to build on the experiences of this project by developing an HEI portal, which will enhance the administration services within the higher education sector.

We have continued to implement the BACS First payment scheme, which allows students to receive their first instalment directly into their bank account - now in operation for the majority of students. This is reliant on HEIs confirming attendance electronically and, again, has necessitated sophisticated computer developments by SLC.

The scheme which operates to collect income contingent loans repayments through the PAYE system has undergone continuous development. The Company is working closely with the Inland Revenue and Department for Education and Skills (DfES) on these enhancements. The number of accounts entering repayment under the old mortgage style loans scheme continues to increase as fewer borrowers earn under the deferment threshold and, as we become ever more innovative, our collections efficiency continues to grow. This year, we are developing an 'in house' collections agency aimed at making considerable savings in the collection of funds from defaulting customers.

The Company continues to administer the Repayment of Teachers' Loans scheme and to pay the public contribution to tuition fees to universities throughout the UK on behalf of English, Welsh and Northern Ireland students. The educational bodies in Scotland and Northern Ireland have their own student financial support arrangements and we continue to work with these bodies on the delivery of their arrangements. It is the Student Loans Company's aim to continue to be central to the delivery of the financial support systems for all four administrations, providing expertise and tangible delivery mechanisms for the financial aspects of their policies. As part of this, we have been extending the capability of our Welsh language services.

This year saw our first venture into the secondary school sector with the successful design and delivery of the Education and Maintenance Allowance schemes for school students in Northern Ireland and Wales.

Throughout the Company's history, we have constantly had to implement systems to deliver policy changes. Most recently, the Higher Education Act brings in variable tuition fees and we are working closely with the DfES on the implementation of this policy. In parallel to this, many universities and colleges are bringing in bursary schemes and SLC has designed a national scheme which could assist with their administration. This has gone out for consultation via UUK and SCOP with HEIs being asked if they wish to utilise this on a 'buy in' basis.

Directors' report (continued)

Review of business and future developments (continued)

The HE Act has introduced the principle of students taking out loans in deferment of their tuition fees and, due to EU regulations, this means EU students will be eligible for repayable loans for their fees, to be repaid upon graduation. Therefore, SLC is carrying out research on behalf of the DfES into the administration of loans for EU students attending UK institutions. This has encompassed both assessment for financial support and the challenge of collecting repayments from across the member states. We are actively working on effective systems to recover repayments from EU students and these will be in place by the point the first repayment contributions are due to be collected. As part of putting these arrangements in place, responsibility for assessing EU students' financial support applications is transferring from the DfES to the Company.

The Company continued in FY 04-05 to administer the sold portfolio owned by Finance for Higher Education and successfully migrated the Honours Trustee Limited portfolio to the new administrator, Honours Student Loans.

Internally, SLC has been enhancing its Change Management processes and planning to deliver its responsibilities arising from the Gershon Review, which include meeting the Value for Money targets driven by this review.

Much of the Company's future activities will be depend on the end-to-end review of SLC's business which the DfES began in May 2005.

Economic and Monetary Union

While the way forward for the UK in relation to joining the common European Currency is not clear, the Company is consulting with the DfES to keep abreast of material developments in this matter and to consider the potential impact on the Company. As part of this process, links have been established with Department officials in order to be prepared to provide the necessary contributions to the overall planning process in due course.

Dividends

The Company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (2004: £Nil).

Directors and their interests

The directors of the Company serving during the year were as follows:

Keith Bedell-Pearce	Executive Chairman (part-time)
Brian G Booth	Non-Executive *^ Deceased 24 October 2004
Tanvi Davda	Non-Executive *^
Barbara Duffner	Non-Executive ^
Angela McCusker	Non-Executive *^
Ralph Seymour-Jackson	Chief Executive
Christian Torkington	Non-Executive **
Ian Dickson	Non-Executive Appointed 1 March 2005

* Member of the Audit Committee throughout the year or to/from the date of resignation / appointment.

** Member of the Audit Committee from 29 June 2004.

^ Member of the Remuneration Committee throughout the year or to/from the date of resignation / appointment.

All non-executive directors are considered to be independent.

None of the directors had any interest in the shares of the Company throughout either the year ended 31 March 2005 or 31 March 2004. The Company is wholly owned by the Secretary of State for Education and Skills and the Secretary of State for Scotland (but this is being reviewed by the Departments following the transfer of responsibility for student support in Scotland to Scottish Ministers on 1 July 1999).

The chief executive is also the accounting officer for the Company.

The Secretary of State for Education and Skills was a shadow director of the Company under Section 741 of the Companies Act 1985 throughout the year.

Directors' report *(continued)*

Fixed assets

Full details of the movement in fixed assets are given in note 8 to the financial statements.

Employees

It is the Company's aim to keep employees informed about its affairs and in particular about those matters that affect them directly. To this end, newsletters and information memoranda are issued regularly to employees in addition to meetings of the Joint Negotiating & Consultative Committee. These meetings are attended by representatives of the Public and Commercial Services (PCS) Union, which was officially recognised by the Company in November 2000.

The Company encourages applications for employment from disabled people and gives full consideration to such applications based on their skills and abilities. In the event of an existing employee becoming disabled, the Company provides counselling and training support. Where possible, an alternative position within the Company will be sought if the individual is unable to continue in their previous role. Training and career development is offered for all disabled staff.

The Company achieved Investors in People (IIP) re-accreditation on 2 October 2003.

Charitable donations

During the year the Company made no charitable donations (2004: £ Nil).

Creditor payment policy

The Company aims to pay suppliers within 30 days of receipt of invoice or in accordance with agreed terms and conditions. The Company adheres to the principles of the Better Payment Practice Code.

The number of days billing from suppliers outstanding at 31 March 2005 was 22 (2004:7). Throughout the year, 91% of invoices were paid within agreed terms.

Corporate Governance

As a matter of good practice the Company has, since 1995, adopted published corporate governance guidelines and has reported accordingly in the annual directors' reports. This is despite the fact that the Company is not a listed Company of the type to which these requirements were directed. However, with the publication of the Combined Code in 1998, and subsequently the revised Code in 2003, there are a number of matters with which, due to its status as a NDPB, the Company cannot comply. In accordance with guidance issued in the document 'Internal Control: Guidance for Directors on the Combined Code', which was issued in September 1999 (the Turnbull Guidance), the Board adopted a staged approach to adoption of the principles of the Combined Code. The Board put in place a process that allowed it to report on internal financial controls for the year ended 31 March 2001 and allowed full adoption, where possible, of the principles of the Combined Code from April 2001. Measures to allow reporting on these principles were approved by the Board and implemented.

In addition, over the same period, updated guidance has been issued by HM Treasury, as contained in Dear Accounting Officer letters DAO(GEN)13/00 and subsequently DAO(GEN)09/03. This guidance introduced a requirement for NDPBs to include a Statement of Internal Control (SIC) for financial periods beginning on or after 1 January 2001, and made reference to best practice as contained in the Turnbull Guidance. This guidance has been fully complied with since the year commencing 1 April 2001. The Accounting Officer's Statement of Internal Control for the year ended 31 March 2005 is provided on pages 10 to 13.

Directors' report *(continued)*

Corporate Governance *(continued)*

As noted above, however, full adoption of the Combined Code has not been possible, and the following exceptions from its provisions should be noted:

- all appointments at Board level are made by the shareholders: consequently there is no Nominations Committee;
- for the same reason, there is no provision for re-election of executive directors;
- remuneration of the Chairman and Chief Executive is determined by the shareholders including arrangements relating to loss of office;
- remuneration packages of executive directors do not include a significant performance-related element;
- remuneration of non-executive directors is set by the shareholders.

Remuneration Committee

The members of the Remuneration Committee consist of at least three non-executive directors who are independent of management and free of any business or other relationships (including cross-directorships or day-to-day involvement in the management of the business) which could interfere with the exercise of their independent judgement.

The duties of the Remuneration Committee are:

- to determine those posts which will be designated as senior staff posts;
- to determine the contracts of employment, including all terms and conditions of service, for senior staff taking account of guidance and market information where appropriate;
- to monitor and evaluate the performance of senior staff;
- to determine the remuneration of senior staff, ensuring that senior staff are fairly rewarded for their contribution to the Company having regard to affordability, guidance and market information where appropriate;
- to support the Chief Executive in making recommendations each year (or such other period as may be agreed) to the Board on the appropriate pay award for all other staff to be submitted for ministerial consideration.

In addition, a severance policy is in operation.

Audit Committee

The members of the Audit Committee consist of at least three non-executive directors who are independent of management and free of any business or other relationships (including cross-directorships or day-to-day involvement in the management of the business) which could interfere with the exercise of their independent judgement.

The duties of the Audit Committee are:

- to review the annual financial statements and their compliance with statutory and accounting requirements before their submission to the Board;
- to consider the scope, planning and terms of engagement of the external auditors, and to review their findings;
- to review management procedures to monitor the effectiveness of the internal control functions and accounting systems of the Company;
- to consider the role of the Internal Audit Department and to review their major findings and management's actions to implement any recommendations made;
- to make recommendations to the Board concerning the appointment of external auditors and to recommend, in conjunction with the Finance Director, their remuneration;
- to keep under review the ethical standards of business behaviour of the Company;
- to consider the going concern assumption and the statement on internal control systems prior to their endorsement by the Board.

Throughout the period, both external and internal audit had the right of independent access to the Chairman and members of the Committee.

Going concern

The balance sheet at 31 March 2005 shows net liabilities of £4,948,000 (2004: £4,794,000). These liabilities arise solely as a result of the inclusion of pension fund liabilities falling due in future years in accordance with the accounting treatment required by FRS 17 Retirement Benefits, which the Company has chosen to adopt earlier than required. To the extent that they are not to be met from the Company's other sources of income, they may only be met by future grants or grants-in-aid from the Company's sponsoring departments. This is because, under the normal conventions applying to the parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant-in-aid for 2005-06, taking into account the amounts required to meet the Company's liabilities falling due in that year, has already been included in the department's Estimates for that year, which have been approved by Parliament, and there is no reason to believe that the department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

The net liability position presented in the balance sheet is entirely a result of the impact of adopting FRS17 in a non-profit making company. There is no impact on the Company's ability to provide its services to either its customers or key business partners and, therefore, no changes are required to the way in which the Company operates.

Auditors

A resolution regarding the reappointment of auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Ralph Seymour-Jackson
Director and Accounting Officer

21 St. Thomas Street
Bristol
BS1 6JS

28 June 2005

Statement of Internal Control

This statement is provided by the Accounting Officer in line with corporate governance guidance issued by HM Treasury, as described in the Directors' Report on page 7.

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Company's policies, aims and objectives, whilst safeguarding the public funds and Company assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The funding bodies have an involvement in the governance of the Company through the role of the Assessors, who are sent by the shareholders to attend Board Meetings. The Assessors may also attend meetings of sub-committees of the Board. The role of the Assessors is to represent the shareholders and make comments at Board Meetings as appropriate. Internal control and risk update reports are provided to the Audit Committee and the Board on a regular basis, and as such are considered by the Assessors.

In accordance with guidance, and consistent with permission given by the London Stock Exchange to the Boards of listed companies, the Company has complied with 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance), which underpins provision C2 of the Combined Code, where possible. It has also complied with DAO(GEN)09/03, issued by HM Treasury.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Company's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Company for the year ended 31 March 2005 and up to date of approval of the annual report and accounts, and accords with the Treasury guidance.

Capacity to handle risk

Under my direction, since November 2004 day to day responsibility for the risk management process has been given to the Corporate Management Board (CMB), under the leadership of the Executive Board. From this date, several internal boards and steering groups including the Corporate Risk Management Team (CRMT), the Change Management Group, the Establishment Committee and elements of the Chief Executive's Board Meeting, were disbanded and their responsibilities and duties transferred to the CMB, comprising the Company's ten Heads of Service.

The CMB has responsibility for controlling and monitoring the Company's operational and financial management and performance, and its supporting internal control framework, ensuring that all business services are striving towards the Company's strategic objectives and key business objectives, as set by the Main Board and the Executive Board. This Group has been established by the Executive Board in response to the increasing size and complexity of the business, and has enabled the Company to ensure that operational management decisions are taken at the most effective and appropriate level. The CMB's Terms of Reference are as agreed with the Executive Board, and are subject to periodic review. Decisions taken by the CMB on reserved matters are subject to approval at Main Board and/or Executive Board level, as appropriate.

The CMB's Terms of Reference include responsibility for:

- reviewing and approving the Company's internal control policies for presentation to the Executive Board and the Main Board;
- reviewing and approving internal control standards, guidelines and procedures as appropriate and assessing their effectiveness in managing business risks;
- ensuring that responsibility for managing risk is clearly assigned and that necessary actions are taken to mitigate against identified risks, in accordance with the Company's risk policy.

Statement of Internal Control *(continued)*

Reporting to the CMB, the Corporate Assurance Manager and his staff define the risk measurement system that shall be observed and act as the key interface with the business in relaying the risk management policy expectations and how these are transferred into practical business requirements.

Guidance is given to each individual involved in the risk management process, firstly through individual discussions detailing the reasoning and internal and external drivers for developing risk management. The external drivers relate to the Company's adopted approach to HM Treasury's "Orange Book" (Management of Risk – A Strategic Overview) and demonstrate how we are aligning our work with the Turnbull Guidance.

In addition, all individuals engaged from each business area are involved in a risk management workshop. This process reinforces the necessity for, and benefits of, effective risk management and providing further guidance on how these principles are translated into practical steps which business managers can follow.

A risk management system has been implemented within the Company which has improved the overall performance of the risk management process. Training and guidance is provided to business users to enable them to understand their responsibilities and the mechanisms employed to achieve these responsibilities. An on-line users' manual is available to assist with training.

The risk and control framework

The Company's risk management strategy is to ensure that business risks are understood, proactively assessed and managed in such a way that the impact of these risks is maintained in accordance with the Company's appetite and tolerance for risk. The risk management strategy is based upon the following series of principles:

- business risks are understood, quantified, prioritised and managed to an acceptable level;
- an adequate and effective system of internal control is established and maintained;
- the effectiveness of the system of internal control and risk profile is reviewed and disclosed on a regular basis.

The risk management strategy applies to all of the Company's business areas and the business processes and activities established to achieve its objectives, including those processes and activities operated by external parties wherever possible.

Responsibility and accountability for risk management is clearly assigned and accepted. The Executive Board and CMB are familiar with, and competent in, the application of the risk management strategy. They are also accountable for the delivery of the strategy, within their areas of responsibility.

A continuous improvement process is in place to optimise the system of internal control to better achieve business objectives.

The key elements of the risk management strategy are described below.

Business risks are understood, quantified, prioritised and managed to an acceptable level

- Reasonable care shall be taken to identify risks affecting the business. These shall be documented in a risk register;
- The potential impact and likelihood of each (identified) risk materialising shall be assessed using the Company's measurement mechanisms;
- Individual responsibility shall be clearly defined for ensuring that identified risks are managed in line with the risk appetite and tolerance of the Board;
- Severe and material risks shall be updated monthly and when there is significant change to business objectives, organisational structure (people), processes, systems or in the external environment. Manageable risks shall be updated quarterly.

Statement of Internal Control *(continued)*

An adequate and effective system of internal control is established and maintained

- Relevant regulatory requirements, government guidance, laws and codes of practice shall be observed;
- Relevant Company policies and codes of conduct shall be observed;
- The Company's business systems and processes should meet all appropriate service, security and business continuity management standards;
- Appropriate resources shall be provided to ensure that defined risk management responsibilities are effectively discharged.

The system of internal control and risk profile is reviewed and disclosed on a regular basis

- Mechanisms shall be in place for reviewing the effectiveness of the existing control framework;
- The high level risk register and associated internal controls shall be reported to the CMB and the Executive Board on a monthly basis and to the Audit Committee on a quarterly basis;
- The adequacy of the Company's systems of internal control is assessed via an approved programme of internal audit reviews carried out on a rolling four year cycle;
- A "Key Controls Checklist" is signed off by the business on a quarterly basis.

Risk appetite

The risk appetite indicates the Company's tolerance for exposure to risk. Risks are categorised under the following headings:

- High (Severe) - The CMB feels concerned about this risk. Significant impact on Company's reputation and ongoing operations. Some immediate action required plus the development of a comprehensive control framework. Status of risk should be reviewed monthly;
- Medium (Material) - The CMB is uneasy about this risk. Consequences of risk materialising would have a material effect on business objectives, but not catastrophic. Assurance that these risks are being managed should be provided by evidencing/demonstrating the sound control framework which exists to manage the risk. In the event of an inadequate level of control, a comprehensive list of controls will be established. Status of risk should be reviewed monthly;
- Low (Manageable) - The CMB is content to manage this risk. Consequences of risk not material to the strategic objectives. Status of risk should be reviewed quarterly.

The categories are driven by the scoring given during the risk assessment phase of the process. The Company risk appetite is communicated via the Company's Risk Management Policy.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Management Board within the Company who have the responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee, the Executive Board and the CMB and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Statement of Internal Control *(continued)*

The key elements of the system of internal control are as follows:

- regular meetings of the Board of directors which has a schedule of matters which are specifically reserved for its approval and which are the subject of regular standard reports as required;
- arrangements under a constitution for an Audit Committee of the Board to meet regularly and receive from management and internal and external auditors, inter alia, reports on the system of internal control, and to provide reasonable assurance that control procedures are in place and are being followed;
- arrangements under a constitution for a Remuneration Committee of the Board to determine the remuneration and terms and conditions of service for senior staff posts, and to support me in making recommendations to the Board on the appropriate pay award for staff;
- an organisational structure within the Company to support business processes and with clear lines of responsibility;
- an Accounting Policies and Practices Manual, key changes to which are approved by the Board of directors;
- an internal audit function working to Government Internal Audit Manual standards, with an annual internal audit plan and producing an annual internal audit report;
- provision by each member of the Executive Board and the CMB of an annual Statement of Assurance to me and to the Audit Committee, confirming their acceptance of their delegated responsibility for maintaining an adequate system of internal control and risk management;
- adoption of a risk-based approach to internal control through evaluating the likelihood and significance of identified corporate risks, resting responsibility for risk management and internal control with designated owners, and with an ongoing process of monitoring and reporting progress against the Company's key risks established through the corporate risk management function;
- a Corporate Plan supporting strategic and operating plans, with a detailed annual budget, regularly revised forecasts, a comparison of actual with budget and with forecast on a monthly and quarterly basis, operating cash flow and variance statements, and key performance indicators, all of which are reviewed by the Board;
- measuring financial and other performance against key performance indicators, including Ministerial targets;
- a corporate diary designed to ensure that all key dates and deadlines are achieved with a monthly high level report, looking forward 12 months, being submitted to the Board;
- an Annual General Meeting is held.

Both the Audit Committee and the Remuneration Committee of the Board have met regularly in accordance with an approved schedule throughout the year.

By order of the Board



Ralph Seymour-Jackson

Director and Accounting Officer

28 June 2005

Statement of chief executive's and directors' responsibilities

Company law and the accounts direction given to the Company by the Secretary of State, with the approval of the Treasury, in accordance with the Company's financial memorandum, require the chief executive and directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the chief executive and 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.

The chief executive and directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The chief executive and directors 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.

In addition, the DfES, with the agreement of the Scottish Executive and, in Northern Ireland, the Department for Employment and Learning, re-appointed the chief executive as accounting officer for the Company in July 2003. This re-appointment continued to place on the chief executive the responsibility for ensuring the regularity and propriety of the public finances as set out in the management statement accompanying the Company's financial memorandum.

KPMG

KPMG LLP

191 West George Street
Glasgow
G2 2LJ
United Kingdom

Independent auditors' report to the members of Student Loans Company Limited

We have audited the financial statements on pages 16 to 29.

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 the chief executive, directors and auditors

The Company's chief executive and directors are responsible for preparing the directors' report and, as described on page 14, 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.

We also report our opinion to you on the regularity of the financial transactions included in the financial statements.

In addition to our audit of the financial statements, the directors have engaged us to review their corporate governance statement as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the statements on pages 7 to 13 reflect the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by those rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information accompanying the financial statements, including the corporate governance statement, and consider whether it is consistent with those financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 chief executive and 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 and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions are in conformity with the authorities which govern them. In forming our opinions 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 31 March 2005 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985;
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

28 June 2005

Profit and loss account
for the year ended 31 March 2005

	<i>Note</i>	2005 £000	2004 £000
Turnover	3		
Grant-in-aid		49,129	47,786
Other		4,202	5,798
Administrative expenses		(52,746)	(52,591)
Operating surplus		585	993
Interest receivable	4	249	158
Other finance costs	18	(212)	(275)
Result of ordinary activities before taxation	5	622	876
Tax on result of ordinary activities	7	(622)	(876)
Result for the financial year		-	-

In both years, the Company made no acquisitions and had no discontinued operations.

Statement of total recognised gains and losses

		2005 £000	2004 £000
Actual return less expected return on pension scheme assets		320	945
Experience gains and losses on pension scheme liabilities		(39)	147
Changes in assumptions underlying the pension scheme liabilities		(415)	(202)
Actuarial gain / (loss) recognised in STRGL	18	(134)	890

Balance sheet
at 31 March 2005

	<i>Note</i>	2005	2004
		£000	£000
Fixed assets			
Tangible assets	8	5,482	6,099
Current assets			
Debtors	9	2,903	1,429
Cash at bank and in hand	10	16,279	23,635
Prepayments and accrued income		2,814	3,177
		21,996	28,241
Creditors: amounts falling due within one year	11	(21,696)	(28,241)
Net current assets		300	-
Total assets less current liabilities		5,782	6,099
Provisions for liabilities and charges	12	(300)	-
Accruals and deferred income			
Deferred capital receipts	13	(5,482)	(6,099)
Net assets excluding pension asset		-	-
Pension liability	18	(4,948)	(4,794)
		(4,948)	(4,794)
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account	19	(4,948)	(4,794)
Total shareholders' funds - equity		(4,948)	(4,794)

These financial statements were approved by the Board of Directors on 28 June 2005 and were signed on its behalf by:



Ralph Seymour-Jackson
Director and Accounting Officer

Cash flow statement
for the year ended 31 March 2005

	Note	2005	2004
		£000	£000
Net cash (outflow)/inflow from operating activities 16		(6,741)	2,518
Returns on investments and servicing of finance			
Bank and other interest received		246	158
Taxation			
Corporation tax paid		(861)	(866)
Capital expenditure			
Payments to acquire tangible fixed assets		(1,184)	(1,905)
Receipts from sales of tangible fixed assets		30	51
Net cash outflow from capital expenditure		(1,154)	(1,854)
Net cash outflow before financing		(8,510)	(44)
Financing			
Capital funding received from the funding bodies		1,154	1,854
(Decrease) / Increase in cash in the period		(7,356)	1,810
Net funds at 1 April		23,635	21,825
Net funds at 31 March		16,279	23,635

Notes

(forming part of the financial statements)

1 Statement of loans administered by the Company

Funding for the purpose of making loans to students is received by the Company from the DfES, the Student Awards Agency for Scotland and the Department of Employment and Learning Northern Ireland.

As at 31 March 2005, the total balance of the loan portfolio administered by the Company on behalf of the funding bodies and the private sector owners was £16,453,501,000 (2004: £14,610,109,000), which excludes supplementary grants.

In respect of unsold loans (ie, those administered by the funding bodies), in accordance with FRS 5 'Reporting the substance of transactions' neither the loans nor the related obligation to repay the funding bodies is included in the financial statements of the Company since:

- (a) in accordance with the terms of the Company's financial memorandum any interest earned on funds made available for making loans to students and on money repaid to the Company by borrowers under the scheme shall be returned to the funding bodies; and
- (b) under section 32 of the financial memorandum, there is an agreement between the Company and the funding bodies that the Company is liable to transmit to these bodies only those repayments which are actually made to the Company. As a consequence, the Company is not liable for repayments due which ultimately may not be recovered.

Similar contractual terms and conditions apply to the private sector portfolios in respect of sold loans.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of preparation

General

The terms of the financial memorandum between the Secretary of State for Education and Skills, the Scottish Ministers, the Department of Employment and Learning Northern Ireland and the Company require that the Company shall conduct its affairs so as to remain solvent within the total resources made available to it by the funding bodies. These financial statements have been prepared on this basis.

Turnover

Turnover represents the revenue element of grant-in-aid funding receivable from the funding bodies for the purpose of administering loan funds and administration fees earned by the Company from third party debt purchasers.

Depreciation

Depreciation is provided on all tangible fixed assets calculated so as to write off the cost of each asset, less estimated residual value, evenly over its expected useful life, as follows:

Computer and other electronic equipment	-	over 3 years
In-house computer development	-	over 5 years
Furniture, fixtures and fittings	-	over 8 years
Motor vehicles	-	over 3 years
Leasehold improvements	-	over the unexpired period of the lease

Notes (continued)

2 Accounting policies (continued)

Deferred capital receipts

Funding received from the funding bodies for the purpose of capital expenditure is credited to the deferred capital receipts account and is released to the profit and loss account by amounts equal to the associated depreciation charge.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account in the period to which they relate.

Pensions

The Company operates a defined benefit pension scheme, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is considered recoverable) or deficit is recognised in full and presented on the face of the balance sheet. The movement in the scheme surplus/deficit is split between operating charges, financing items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Taxation

The charge to taxation is based upon the profits of the year attributable to third party administration services, together with interest income received during the year.

3 Turnover

Turnover is analysed as follows:

	2005 £000	2004 £000
Grant-in-aid receivable	49,129	47,786
Administration fees receivable from third party debt purchasers	4,158	5,756
Other income	44	42
	53,331	53,584

The increase in grant-in-aid is primarily related to the additional funding received to finance the development of systems and business processes relating to the Modernising Government initiative and to administer additional products for which the company has now assumed responsibility.

Administration fees receivable have decreased due to the transfer of one of the debt portfolios to another administrator during the year and a declining trend due to the ageing and profile of the debt sale portfolios.

4 Interest receivable

	2005 £000	2004 £000
Bank interest	249	158

Notes (continued)

5 Result of ordinary activities before taxation

(a) This is stated after charging or (crediting):

	2005 £000	2004 £000
Depreciation	1,729	2,136
Loss / (Gain) on disposal of fixed assets	42	(11)
Amortisation of deferred capital receipts	(1,729)	(2,136)
Directors' remuneration (see below)	244	304
Auditors' remuneration, including expenses:		
Audit services	35	34
Further assurance services	15	22
Tax services	15	22
Other services	12	-
Operating lease rentals:		
Land and buildings	1,743	1,416
Computer and other equipment	3,409	2,367

Non-audit services are subject to the Company's normal procurement rules and the Company is, therefore, satisfied that the auditors' independence has not been compromised.

(b) Directors' remuneration:

	2005 £000	2004 £000
Fees	23	19
Executive emoluments (including benefits in kind)	206	275
Pension contributions	15	10
	<u>244</u>	<u>304</u>

The remuneration of each individual director analysed into its constituent elements, along with comparatives, is as follows:

	Basic Emolument		Other benefits and expenses*		Total Emoluments		Pension Contributions		Contract terms	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	Term	Notice period
Keith Bedell-Pearce	63	63	3	5	66	68	-	-	3 yrs	3 mths
Brian G Booth (deceased 24 October 2004)	3	5	-	-	3	5	-	-	4 yrs	-
Tanvi Davda	5	5	-	-	5	5	-	-	3 yrs	-
Barbara Duffner (appointed 1 March 2004)	5	-	-	-	5	-	-	-	3 yrs	-
Angela McCusker	5	5	-	-	5	5	-	-	3 yrs	-
Ralph Seymour-Jackson (chief executive – appointed 21 July 2003)	140	84	-	-	140	84	15	10	3 yrs 6 mths	3 mths to July 2004 and 6 mths thereafter
Christian Torkington (appointed 1 March 2004)	5	-	-	-	5	-	-	-	3 yrs	-
Jean Tomlin (resigned 31 December 2003)	-	4	-	-	-	4	-	-	3 yrs	-
Colin Ward (chief executive – retired 30 June 2003)	-	121	-	2	-	123	-	-	1 yr	6 mths
Ian Dickson (appointed 1 March 2005)	-	-	-	-	-	-	-	-	3 yrs	-
	<u>226</u>	<u>287</u>	<u>3</u>	<u>7</u>	<u>229</u>	<u>294</u>	<u>15</u>	<u>10</u>		

Notes (continued)

5 Result of ordinary activities before taxation (continued)

* Other benefits and expenses principally comprise motor car, medical insurance benefits or, in the case of the chairman, taxable travel and subsistence expenses.

The following disclosure applies to Mr Seymour-Jackson and, in the prior year, Mr Ward.

The constituent elements of the chief executive's remuneration package are disclosed above. Under the terms of his contract, the chief executive is entitled to contributions to a personal pension scheme at the rate of 12% of his gross annual salary. He is not a member of the Company scheme and has a personal pension plan to which the contributions are paid. As an ordinary member of the Company's group life assurance scheme, he is entitled to permanent health insurance and death in service benefits. He is provided with other benefits as noted above. The chief executive is also eligible for payment under a bonus scheme established with the approval of the DfES and HMT and subject to such rules as the Board may determine. Such payments do not form a significant part of his total remuneration.

The total emoluments of the retired chief executive stated above include an amount of £88,000 paid on retirement under the terms of his contract.

As required by Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance, the following is the remuneration of each individual substantive Executive Board member not included in the table of directors' remuneration above.

Remuneration for those Executive Board members appointed during the year has been disclosed from the date of appointment.

	Basic Emolument		Other benefits and expenses		Total Emoluments		Pension Contributions		Contract terms	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	Term	Notice period
E Ostman (retired 20 February 2005)	98	99	-	-	98	99	10	11	Permanent	6 months
D Ross	96	88	-	-	96	88	10	9	Permanent	6 months
R Watson	96	84	-	-	96	84	10	9	Permanent	6 months
W Gray	96	84	-	-	96	84	10	9	Permanent	6 months
	<u>386</u>	<u>355</u>	<u>-</u>	<u>-</u>	<u>386</u>	<u>355</u>	<u>40</u>	<u>38</u>		

6 Staff numbers and costs

The average number of full time equivalent employees of the Company (including directors) during the year was as follows:

	2005	2004
Number of employees	<u>943</u>	<u>813</u>

All staff were employed by the Company for the purposes of administration and operation of the student loans scheme.

Notes (continued)

6 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	20,747	17,636
Social security costs	1,593	1,327
Pension service costs	1,333	1,098
Other staff costs	220	285
	<u>23,893</u>	<u>20,346</u>

7 Tax on result on ordinary activities

	2005 £000	2004 £000
Based on the result for the year at the standard rate of 30% (2004: 30%)	<u>622</u>	<u>876</u>

The tax charge represents 30% of the taxable profits arising on administration fees receivable from third party debt purchasers and bank interest, after charging the costs associated with the administration of that business.

8 Tangible fixed assets

	Short leasehold improvements £000	Computer & other electronic equipment £000	Furniture, fixtures & fittings £000	Motor vehicles £000	Total £000
Cost					
At beginning of year	4,850	11,492	2,183	22	18,547
Additions	614	380	190	-	1,184
Disposals	(29)	(927)	(204)	-	(1,160)
	<u>5,435</u>	<u>10,945</u>	<u>2,169</u>	<u>22</u>	<u>18,571</u>
Depreciation					
At beginning of year	1,507	9,995	935	11	12,448
Charge for year	497	986	239	7	1,729
On disposals	(10)	(881)	(197)	-	(1,088)
	<u>1,994</u>	<u>10,100</u>	<u>977</u>	<u>18</u>	<u>13,089</u>
Net book value					
At 31 March 2005	<u>3,441</u>	<u>845</u>	<u>1,192</u>	<u>4</u>	<u>5,482</u>
At 31 March 2004	<u>3,343</u>	<u>1,497</u>	<u>1,248</u>	<u>11</u>	<u>6,099</u>

In the opinion of the directors there is no material difference between the net book values disclosed above and their fair value.

Notes (continued)

9 Debtors

	2005 £000	2004 £000
Balances with central government bodies	2,597	626
Other debtors	39	270
Amounts due from third party debt owners	267	533
	<u>2,903</u>	<u>1,429</u>

The balances with central government bodies represent the timing difference arising on the recognition of expenses in the Profit and Loss Account and the drawdown of grant-in-aid to pay those expenses.

10 Cash at bank and in hand

	2005 £000	2004 £000
Cash held in:		
Commercial bank accounts	2,856	4,052
HM Paymaster General Office accounts	13,421	19,582
Cash in hand	2	1
	<u>16,279</u>	<u>23,635</u>

The cash balance held in HM Paymaster General Office accounts at 31 March 2005 includes £1.1m (2004: £4.8m) of funding not yet issued in respect of tuition fees payable to Higher Education Institutions which has not been claimed by those institutions at that date.

11 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Balances with central government bodies	13,442	20,087
Trade creditors	1,765	731
Corporation tax	281	519
Other taxation and social security	1,452	1,230
Accruals and deferred income	4,756	5,674
	<u>21,696</u>	<u>28,241</u>

The balances with central government bodies represent funding received from the funding bodies not yet issued as student loans or tuition fees. This includes £1.1m (2004: £4.8m) of funding not yet issued in respect of tuition fees payable to Higher Education Institutions which has not been claimed by those institutions at the balance sheet date.

12 Provisions for liabilities and charges

This provision relates to a writ issued by a former chief executive, who has since died, claiming loss and damages in respect of the termination of his contract. Legal judgement is currently awaited on the matter.

Notes (continued)

13 Deferred capital receipts

	2005 £000	2004 £000
At 1 April	6,099	6,370
Receivable for the year	1,112	1,865
Credited to profit and loss account	(1,729)	(2,136)
At 31 March	5,482	6,099

14 Called up equity share capital

	2005 £	2004 £
<i>Authorised</i>		
100 ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
10 ordinary shares of £1 each	10	10

15 Movement in shareholders' funds

	2005 £000	2004 £000
Shareholders funds at 1 April	(4,794)	(5,352)
Movement in year	(154)	558
Shareholders funds at 31 March	(4,948)	(4,794)

The annual movement in shareholders' funds represents the movement in the pension liability. The analysis of this movement is detailed in Note 18.

Notes (continued)

16 Cash flows

Reconciliation of result on ordinary activities before taxation and interest receivable to net cash inflow from operating activities:

	2005 £000	2004 £000
Operating surplus	585	993
Depreciation	1,729	2,136
Amortisation of deferred capital receipts	(1,729)	(2,136)
	<u>585</u>	<u>993</u>
(Increase)/decrease in debtors, excluding interest receivable	(1,320)	1,464
Increase / (Decrease) in creditors	337	(595)
Increase in provisions	300	-
	<u></u>	<u></u>
Net cash inflow from administration activities	(98)	1,862
Funding provided to students and HEIs less repayments in the year	(3,068,640)	(2,883,218)
Funding received from the funding bodies less repayments in the year	3,061,996	2,883,874
	<u></u>	<u></u>
Net cash (outflow) / inflow from operating activities	<u>(6,741)</u>	<u>2,518</u>

17 Financial commitments

The Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings		Other	
	2005 £000	2004 £000	2005 £000	2004 £000
Operating leases which expire:				
Within one year	-	-	1,048	151
In the second to fifth years inclusive	564	512	2,262	2,598
In over five years	1,179	1,113	-	-
	<u>1,743</u>	<u>1,625</u>	<u>3,310</u>	<u>2,749</u>

The operating leases in respect of the land and buildings are guaranteed by the Secretary of State for Education and Skills.

The increase in other leases is due to new leases for computer equipment required in connection with the development of systems supporting the Modernising Government initiative.

At 31 March 2005, the Company had placed contracts for the purchase of fixed assets totalling £nil (2004: £nil).

Notes (continued)

18 Pensions

The Company has operated a pension scheme since 6 November 1990. The scheme will provide funded defined benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company and are invested in managed funds. Contribution rates are determined by a qualified actuary on the basis of triennial valuations.

In accordance with Executive NDPBs Annual Report and Accounts Guidance 2004/05, the Company has opted for early adoption of FRS17 – Retirement Benefits. In addition to the disclosures contained in the primary statements, the following disclosures are in accordance with that Standard.

Composition of the scheme

The Company operates a defined benefit scheme in the UK. The following disclosures are based on the triennial actuarial valuation carried out at 5 November 2002 and updated to 31 March 2005 by a qualified independent actuary.

The major assumptions used by the actuary were (in nominal terms):

	2005	2004	2003	2002
Rate of increase in salaries	4.4%	4.4%	4.1%	4.3%
Rate of increase of pensions in payment (5% fixed)	5.0%	5.0%	5.0%	5.0%
Rate of increase of pensions in payment (LPI) **	2.9%	2.9%	n/a	n/a
Rate of increase of pensions in deferment	2.9%	2.9%	2.6%	2.8%
Discount rate	5.4%	5.5%	5.4%	6.0%
Inflation assumption	2.9%	2.9%	2.6%	2.8%

** with effect from 6 May 2004 the rate of increase of pensions in payment was amended from a fixed 5% to a limited price index rate capped at a maximum of 5%

The assets in the scheme and the expected rate of return were:

	2005	2005 £000	2004	2004 £000	2003	2003 £000	2002	2002 £000
Equities	6.20%	7,906	6.20%	6,862	6.00%	4,066	6.75%	4,907
Bonds	3.60%	1,450	-	-	-	-	-	-
Cash	3.30%	402	2.50%	233	2.25%	346	2.50%	17
Total market value of assets		9,758		7,095		4,412		4,924
Actuarial value of liability		(14,706)		(11,889)		(9,764)		(6,365)
Recoverable deficit in the scheme		(4,948)		(4,794)		(5,352)		(1,441)
Related deferred tax asset		-		-		-		-
Net pension liability		(4,948)		(4,794)		(5,352)		(1,441)

An improvement in stock market conditions has resulted in the actual return of assets exceeding that which was expected. Expected return on assets was £488,000 (2004 - £293,000) and the actual return on assets was £808,000 (2004 - £1,238,000). In addition, market conditions have led the scheme actuary to revise the discount rate applied to future liabilities from 5.5% at 31 March 2004 to 5.4% at 31 March 2005. Taken together with less significant changes in actuarial assumptions, this has resulted in an actuarial loss of £134,000 (2004 – gain of £890,000).

Notes (continued)

18 Pensions (continued)

Analysis of net return on pension scheme

	2005	2004
	£000	£000
Expected return on pension scheme assets	488	293
Interest on pension liabilities	(700)	(568)
Net Return	(212)	(275)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

History of experience gains and losses

As this is the third year that the FRS17 disclosures are required, a limited history of experience gains and losses is provided. Over the next two years, a history will be built up and provided on a rolling 5 year basis thereafter.

	2005		2004		2003	
	£000	%	£000	%	£000	%
Difference between expected and actual return on scheme assets	320	3	945	13	(1,924)	(44)
Experience gains and losses on scheme liabilities	(39)	0	147	1	(208)	(2)
Total amount recognised in statement of total recognised gains and losses	(134)	(1)	890	7	(3,953)	(40)

Movement in deficit during the year

	2005	2004
	£000	£000
Deficit in scheme at beginning of year	(4,794)	(5,352)
Movement in year:		
Current service cost	(1,142)	(1,098)
Contributions	1,334	1,041
Past service costs	-	-
Net return on assets/(interest cost)	(212)	(275)
Actuarial (loss) / gain	(134)	890
Deficit in scheme at end of year	(4,948)	(4,794)

Notes (continued)

19 Reserves

	2005 £000	2004 £000
Profit and Loss Reserve excluding pension liability	-	-
Pension liability	(4,948)	(4,794)
Profit and Loss Reserve	(4,948)	(4,794)

The movement in reserves has been reflected in either the Profit and Loss Account or the Statement of Total Recognised Gains and Losses as required by FRS17 – Retirement Benefits.

The analysis of the annual movement is detailed in the movement in deficit during the year in Note 18.

20 Contingent liability

An internal review of contractual documentation has identified a possible breach of the terms of one particular contract by the Company. The nature of this possible breach has now been investigated by the Company, and discussions with the external party concerned will commence shortly. Until these discussions commence, it will not be possible to give a clear view on the amount or timing of outcomes arising from this matter. However, the Company's current view is that it is possible that a material obligation may arise from these discussions. Due to the commercial nature of this matter, further information cannot be disclosed at this time.

21 Controlling parties

The Company is wholly owned by the Secretary of State for Education and Skills and the Secretary of State for Scotland (but this is being reviewed by the Departments following the transfer of responsibility for student support in Scotland to Scottish Ministers on 1 July 1999).

22 Related party transactions

Student Loans Company Limited is a Non Departmental Public Body ('NDPB') which is funded by the bodies detailed in Note 1. Those funding bodies are therefore regarded as related parties.

During the year, the Company has had various material transactions with the above departments.

Dependants of directors, executive management and staff, who are students, are eligible to participate in the student loans scheme on exactly the same terms and conditions as are available to other students.

23 Notional cost of capital

In accordance with the 'Executive NDPBs: Annual Reports and Accounts Guidance' the Company is required to disclose the notional cost of capital. In the year ended 31 March 2005, the cost of such capital (calculated at 3.5% for both the current and prior years, rates determined by the Executive NDPB Annual Report and Accounts Guidance) was £203,000 (2004: £218,000).