

BANK OF SCOTLAND EQUIPMENT FINANCE LIMITED
(formerly British Linen Finance Limited)

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 December 2002



COMPANY NUMBER 1335072

BANK OF SCOTLAND EQUIPMENT FINANCE LIMITED
(formerly British Linen Finance Limited)

DIRECTORS' REPORT 2002

The directors submit this report and accounts of Bank of Scotland Equipment Finance Limited for the year ended 31 December 2002.

RESULTS AND DIVIDEND

The profit of the company and its subsidiaries for the year amounted to £4,577,000 before taxation. After a tax charge of £1,486,000, the profit after taxation is £3,091,000. It is recommended that no final dividend be paid which leaves retained profits of £9,449,000 to be carried forward.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The group's principal business during the period was the provision of leasing and asset based finance in the United Kingdom. It is the intention to continue these activities to meet the requirements of lessees.

During the year the company changed its name to Bank of Scotland Equipment Finance Limited.

DIRECTORS AND THEIR INTERESTS

No director had a beneficial interest in the ordinary stock of the Company, nor in the preference stocks of HBOS plc, the company's ultimate parent undertaking during the year.

Further, no director had a beneficial interest in the shares of any undertaking within the HBOS Group during the year.

Directors who served during the year and their beneficial interests in the ordinary stock units of HBOS plc, the ultimate parent undertaking, were as follows:

	<u>At 1 January 2001</u>	<u>At 31 December 2002</u>
	<u>Ordinary Stock Units</u>	<u>Ordinary Stock Units</u>
	<u>of 25p each</u>	<u>of 25p each</u>
G Barclay – resigned 31 December 2002		
A Manser – resigned 31 December 2002		
P E Ross	-	-
M Selwood	-	-

Options to subscribe for ordinary stock of HBOS plc were granted to or exercised by directors during the year to 31 December 2002 as follows:

EXECUTIVE STOCK OPTIONS HELD BY DIRECTORS

	<u>*OPTIONS</u>	<u>*OPTIONS</u>	<u>*OPTIONS</u>	<u>*OPTIONS</u>
	<u>HELD AS</u>	<u>GRANTED</u>	<u>EXERCISED</u>	<u>HELD AS</u>
	<u>AT 01.01.02</u>			<u>AT 31.12.02</u>
G Barclay – resigned 31 December 2002				
A Manser – resigned 31 December 2002				

* Ordinary Stock Units of 25p each.

Bank of Scotland policy is to make an annual grant of options over the ten year life of the Executive Stock Option Scheme.

BANK OF SCOTLAND EQUIPMENT FINANCE LIMITED
(formerly British Linen Finance Limited)

DIRECTORS' REPORT (Continued)

SAVINGS RELATED STOCK OPTIONS HELD BY DIRECTORS

<u>*OPTIONS HELD AS AT 01.01.02</u>	<u>*OPTIONS GRANTED</u>	<u>*OPTIONS EXERCISED</u>	<u>*OPTIONS HELD AS AT 31.12.02</u>
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G Barclay – resigned 31 December 2002

A Manser – resigned 31 December 2002

*Ordinary Stock Units of 25p each.

At the beginning of the financial period, the interests of the directors were in Bank of Scotland Ordinary Stock Units/Halifax plc shares.

AUDITORS

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

Capital House
Queens Park Road
Handbridge
Chester
Cheshire, CH88 3AN

By order of the board

P Ross
Director

20 February 2003

BANK OF SCOTLAND EQUIPMENT FINANCE LIMITED
(formerly British Linen Finance Limited)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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 and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BANK OF SCOTLAND EQUIPMENT FINANCE LIMITED**

We have audited the accounts on pages 5 to 14 which have been prepared under the historical cost convention and on the basis of accounting policies set out on page 8. This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 Forest Gate
Brighton Road
Crawley RH11 9PT

20 February 2003

**GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002**

		Year to 31 December 2002	10 months to 31 December 2001 Restated £000s
	Notes	£000s	
Gross earnings	2	26,306	17,619
Interest payable	3	<u>(11,796)</u>	<u>(8,320)</u>
Gross profit		14,510	9,299
Administrative expenses		<u>(9,933)</u>	<u>(7,133)</u>
Operating profit on ordinary activities before taxation	4	4,577	2,166
Tax charge on profit on ordinary activities	5	<u>(1,486)</u>	<u>(217)</u>
Profit for the year		<u><u>3,091</u></u>	<u><u>1,949</u></u>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2002**

Profit for the year attributable to shareholders		3,091	1,949
Prior Year Adjustment re implementation of FRS19	1	<u>-</u>	<u>802</u>
Total gains		<u><u>3,091</u></u>	<u><u>2,751</u></u>

The group and company have no recognised gains or losses in either year, other than as stated above, all of which relates to current activities.

The notes on pages 8 to 14 form part of these accounts.

BANK OF SCOTLAND EQUIPMENT FINANCE LIMITED

**GROUP BALANCE SHEET
AS AT 31 DECEMBER 2002**

		31 December 2002		31 December 2001 Restated	
	Notes	£000s	£000s	£000s	£000s
Fixed assets					
Tangible assets	6		351		407
Current assets					
Finance lease receivables					
- due within one year	8	84,954		68,427	
- due after more than one year	8	154,101		116,417	
Debtors	9	12,455		9,593	
Cash at bank and in hand		4		4	
		<u>251,514</u>		<u>194,441</u>	
Creditors:					
Amounts falling due within one year	10	<u>(126,933)</u>		<u>(94,705)</u>	
Net current assets			124,581		99,736
Total assets less current liabilities			<u>124,932</u>		<u>100,143</u>
Creditors:					
Amounts falling due after more than one year	11		(111,733)		(91,147)
Provisions for liabilities and charges	12		(637)		475
Net assets			<u>12,562</u>		<u>9,471</u>
Capital and reserves					
Share capital	14		1,200		1,200
Share premium	14		1,889		1,889
Capital reserve	14		24		24
Reserves	14		9,449		6,358
Equity shareholders funds			<u>12,562</u>		<u>9,471</u>

These accounts were approved by the directors on 20 February 2003

The notes on pages 8 to 14 form part of these accounts.


Director

Name

BANK OF SCOTLAND EQUIPMENT FINANCE LIMITED

**COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2002**

		31 December 2002		31 December 2001 Restated	
	Notes	£000s	£000s	£000s	£000s
Fixed assets					
Tangible assets	6		306		345
Investments:					
Shares in subsidiary undertaking	7		489		489
			<u>795</u>		<u>834</u>
Current assets					
Finance lease receivables					
- due within one year	8	59,619		50,636	
- due after more than one year	8	102,523		80,273	
Debtors					
- due within one year	9	42,159		29,045	
- due after more than one year	9	<u>31,422</u>		<u>20,654</u>	
		235,723		180,608	
Creditors:					
Amounts falling due within one year	10	<u>(125,046)</u>		<u>(92,578)</u>	
Net current assets			110,677		88,030
Total assets less current liabilities			<u>111,472</u>		<u>88,864</u>
Creditors:					
Amounts falling due after more than one year	11		(111,733)		(91,147)
Provisions for liabilities and charges	12		(1,385)		(69)
Net liabilities			<u>(1,646)</u>		<u>(2,352)</u>
Capital and reserves					
Share capital	14		1,200		1,200
Share premium	14		1,889		1,889
Reserves	14		(4,735)		(5,441)
Equity shareholders funds			<u>(1,646)</u>		<u>(2,352)</u>

These accounts were approved by the directors on 20 February 2003

The notes on pages 8 to 14 form part of these accounts.

Director

Name P.E. ROSS

**NOTES ON THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

1) Accounting policies

a) Basis of preparation

The accounts have been prepared under the historical cost convention modified by the revaluation of certain properties and investments and in accordance with currently applicable accounting standards and statements of recommended practice.

The Company has adopted FRS18 'Accounting policies' and FRS19 'Deferred taxation' in these financial statements. The comparative figures have been restated accordingly.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash-flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

The Company has taken advantage of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with related parties that are part of the Bank of Scotland group.

b) Basis of consolidation

The group accounts consolidate the accounts of Bank of Scotland Equipment Finance Limited and its subsidiary undertakings, Saleslease Limited, Saleslease Purchase Limited, Arrears Collection Enforcement Limited, Keystone Cover Limited, CF Asset Finance Limited and CFAF Cover Limited drawn up to the 31 December 2002.

No profit and loss account is provided for Bank of Scotland Equipment Finance Limited as permitted by Section 230 Companies Act 1985.

c) Finance leases, instalment credit and operating leases

Income from assets leased to customers and from instalment credit agreements is determined by spreading interest and charges over the period of repayment in proportion to the net cash investment.

The net investments in finance leases are included as amounts receivable in advances.

d) Depreciation

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

Fixtures and fittings	20% p.a. on a reducing balance basis
Motor vehicles	25% p.a. on a reducing balance basis

e) Bad and doubtful debts

Specific provisions are made for finance lease receivables, instalment credit and operating lease assets which are recognised to be bad or doubtful. A general provision, to cover advances which are latently bad or doubtful, but not yet identified as such, is also maintained. Provisions made during the year are charged to revenue, net of recoveries.

Finance lease receivables and instalment credit are stated net of provisions in the balance sheet.

f) Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

NOTES ON THE ACCOUNTS (Continued)

1) Accounting policies (continued)

g) Pension contributions

The group makes contributions to a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable to the scheme in respect of the accounting period.

2) Turnover

Turnover is attributable to the one principal activity of the company which arose wholly in the United Kingdom.

3) Interest payable

	Year to 31 December 2002 £000s	10 months to 31 December 2001 £000s
On borrowing from Capital Bank group	11,716	8,249
Bank of Scotland	47	25
Other interest	33	46
	<u>11,796</u>	<u>8,320</u>

4) Operating profit

The operating profit of £4,577,000 (31/12/01 - £2,166,000) is stated after crediting lease rentals receivable, commissions, fees and proceeds on the sale of leased equipment totalling £119,256,000 (31/12/01 - £76,912,000), after charging provisions for bad and doubtful debts of £6,819,000 (31/12/01 - £4,616,000), and after:

	Year to 31 December 2002 £000s	10 months to 31 December 2001 £000s
Auditor's remuneration - audit	23	23
Depreciation of fixed assets	91	87
Disposal of fixed assets - loss	17	21
	<u>131</u>	<u>131</u>

Audit costs of the parent company were £8,000 (31/12/01 - £8,000)

Staff costs

Wages and salaries	1,784	1,477
Social security	198	111
Pension	114	84
	<u>2,096</u>	<u>1,672</u>

Directors' remuneration

Directors' emoluments	157	135
Social security	18	14
Pension	12	10
	<u>187</u>	<u>159</u>

The average weekly number of employees during the year was as follows:

	Number	Number
Sales	38	35
Administrative	31	28
	<u>69</u>	<u>63</u>

NOTES ON THE ACCOUNTS (Continued)

5) Taxation

The tax charge on profits for the year is made up as follows:

	Year to 31 December 2002	10 months to 31 December 2001 Restated See note 12
	£000s	£000s
UK Corporation tax		
Current tax on income for the year	427	(19)
Adjustment in respect of prior periods	(53)	(91)
Total current tax	374	(110)
Deferred tax		
- current year	1,033	327
- prior year	79	-
Tax on profit on ordinary activities	1,486	217

The current tax charge for the period is 20.7% lower (2001: 21.9% lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below.

Profit on ordinary activities before tax	4,577	2,166
Current tax at 30% (2001: 30%)	1,373	650
Expenses not deductible for tax purposes	13	26
Capital allowances for period in excess of depreciation	(959)	(695)
Total current tax charge (see above)	427	(19)

NOTES ON THE ACCOUNTS (Continued)

6) Tangible fixed assets

	Fixtures, fittings & equipment £000s	Motor vehicles £000s	Total £000s
GROUP			
Cost			
At 1st January 2002	739	176	915
Additions	77	-	77
Disposals	(31)	(74)	(105)
At 31st December 2002	785	102	887
Depreciation			
At 1st January 2002	416	92	508
Charge for the year	78	13	91
Disposals	(20)	(43)	(63)
At 31st December 2002	474	62	536
Net book value			
At 31st December 2002	311	40	351
At 31st December 2001	323	84	407

	Fixtures, fittings & equipment £000s	Motor vehicles £000s	Total £000s
COMPANY			
Cost			
At 1st January 2002	535	176	711
Additions	77	-	77
Disposals	(13)	(73)	(86)
At 31st December 2002	599	103	702
Depreciation			
At 1st January 2002	273	93	366
Charge for the year	66	13	79
Disposals	(6)	(43)	(49)
At 31st December 2002	333	63	396
Net book value			
At 31st December 2002	266	40	306
At 31st December 2001	262	83	345

7) Shares in subsidiary undertakings

The following holdings relates to ordinary share capital. No other share capital is held in Saleslease Limited, Saleslease Purchase Limited, Arrears Collection Enforcement Limited, Keystone Cover Limited, CF Asset Finance Limited all of which are wholly owned subsidiaries and are registered in Scotland, with the exception of Arrears Collection Enforcement Limited which is registered in England. The principal activities of Saleslease Limited, Saleslease Purchase Limited and CF Asset Finance Limited are equipment leasing and hire purchase. The principal activity of Arrears Collection Services Limited is debt collection and that of Keystone Cover Limited and CFAF Cover Limited is the sale of Keyman and asset insurance.

All the subsidiaries have a 31 December accounting reference date.

Cost at 1 January 2002 and 31 December 2002 £000s
489

NOTES ON THE ACCOUNTS (Continued)

8) Finance lease receivables

	Group		Company	
	31 December 2002 £000s	31 December 2001 £000s	31 December 2002 £000s	31 December 2001 £000s
Rentals receivable for leased equipment (Net of provisions for bad and doubtful debts)	290,773	226,474	196,359	159,740
Less: Income allocated to future periods	(51,718)	(41,630)	(34,217)	(28,831)
	<u>239,055</u>	<u>184,844</u>	<u>162,142</u>	<u>130,909</u>
Amounts receivable:				
- within one year	84,954	68,427	59,619	50,636
- after more than one year	154,101	116,417	102,523	80,273
	<u>239,055</u>	<u>184,844</u>	<u>162,142</u>	<u>130,909</u>

The cost of equipment acquired during the year for letting under finance by the group was £157,793,000 (31/12/01- £114,939,000) and by the company £104,086,000 (31/12/01- £75,971,000).

Included in finance lease receivables is £20,374,000 (31/12/01 - £19,568,000) due to the Group and £nil (31/12/01 - £nil) due to the company in connection with instalment credit contracts of which £8,803,000 (31/12/01 - £8,372,000) and £nil (31/12/01 - £nil) is receivable within one year by the Group and the Company, respectively.

9) Debtors

	Group		Company	
	31 December 2002 £000s	31 December 2001 £000s	31 December 2002 £000s	31 December 2001 £000s
Trade debtors	1,745	1,088	834	717
Other debtors	549	354	491	396
Prepayments	10,161	8,117	4,205	3,525
Taxation recoverable	-	34	778	845
Amounts due from group companies	-	-	67,273	44,216
	<u>12,455</u>	<u>9,593</u>	<u>73,581</u>	<u>49,699</u>
Amounts receivable:				
- within one year	12,455	9,593	42,159	29,045
- after more than one year	-	-	31,422	20,654
	<u>12,455</u>	<u>9,593</u>	<u>73,581</u>	<u>49,699</u>

10) Creditors: amounts falling due within one year

	Group		Company	
	31 December 2002 £000s	31 December 2001 £000s	31 December 2002 £000s	31 December 2001 £000s
Bank overdrafts	408	483	52	49
Trade creditors	1,466	999	814	804
Other creditors	457	1,152	416	1,079
Corporation tax payable	427	-	-	-
Amounts due to:				
Capital Bank group undertakings	123,712	90,188	123,712	89,784
Bank of Scotland	463	1,883	52	862
	<u>126,933</u>	<u>94,705</u>	<u>125,046</u>	<u>92,578</u>

NOTES ON THE ACCOUNTS (Continued)

11) Creditors: amounts falling due after more than one year

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£000s	£000s	£000s	£000s
Amounts due to:				
Capital Bank group undertakings	111,733	91,147	111,733	91,147
	<u>111,733</u>	<u>91,147</u>	<u>111,733</u>	<u>91,147</u>

All amounts due are repayable within 5 years.

12) Deferred taxation

	31 December 2002	31 December 2001
	£000s	Restated £000s
Group:		
Difference between accumulated depreciation and amortisation and capital allowances:		
Brought forward asset	475	-
Prior year adjustment re implementation of FRS19	-	802
Movement in the year	(1,112)	(327)
Carried forward (liability)/asset	<u>(637)</u>	<u>475</u>
Company:		
Difference between accumulated depreciation and amortisation and capital allowances:		
Brought forward liability	(69)	-
Prior year adjustment re implementation of FRS19	-	481
Movement in the year	(1,316)	(550)
Carried forward liability	<u>(1,385)</u>	<u>(69)</u>

13) Property Rental Obligations

There were annual commitments under non-cancellable operating leases as set out below:

	Group and Company Land and Buildings	
	31 December 2002	31 December 2001
	£000s	£000s
Operating leases which expire:		
Over five years	60	60
	<u>60</u>	<u>60</u>

NOTES TO THE ACCOUNTS (Continued)

14) Reconciliation of movement in shareholders' funds

	31 December 2002 £000s	31 December 2001 £000s
GROUP		
Opening shareholders funds	9,471	6,720
Prior year adjustment - deferred tax	-	802
Restated opening shareholders funds	9,471	7,522
Retained profit for the year	3,091	1,949
Closing shareholders funds	12,562	9,471
COMPANY		
Opening shareholders funds	(2,352)	(3,148)
Prior year adjustment - deferred tax	-	481
Restated opening shareholders funds	(2,352)	(2,667)
Retained profit for the year	706	315
Closing shareholders funds	(1,646)	(2,352)
Share capital		£000s
At 1 January 2002 and 31 December 2002		
Authorised, issued and fully paid		
'A' ordinary shares of £1 each		450
'B' ordinary shares of £1 each		750
		1,200

Shareholders' funds are entirely attributable to equity interests.

15) Pension costs

The group makes contributions to a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the group to the funds and amounted to £114,855 (31/12/01 - £84,319) for the year.

16) Ultimate parent undertaking

The directors consider the ultimate parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member to be HBOS plc. A copy of the Annual Report and Accounts of the ultimate parent undertaking can be obtained from its Head Office at The Mound, Edinburgh, EH1 1YZ.

The parent undertaking in whose accounts the company is first consolidated is British Linen Leasing Limited, registered in Scotland. Copies of its accounts can be obtained from its Head Office, Capital House, Queens Park Road, Chester.

17) Capital commitments

There were no capital commitments at the end of the year for which a provision should be made (31/12/01 - nil).

18) Contingent Liability

The group has entered into certain transactions which involve an amount of unguaranteed rental income at the end of the primary period of lease. As at 31 December 2002 these unguaranteed amounts totalled £484,707 (31 December 2001 - £491,433). It is believed that these amounts will ultimately be received in full.