BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

31 December 2012

Member of Lloyds Banking Group

Registered Number 02279167

DIRECTORS

C G Dowsett
G A Fox
R O Williams

COMPANY SECRETARY

M A A Johnson

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

REGISTERED COMPANY NUMBER

02279167

REPORT OF THE DIRECTORS

REVIEW OF BUSINESS

During the year, the principal activity of the company was the leasing of assets through finance and operating lease transactions and the holding of investments in subsidiary undertakings, and this is likely to continue for the foreseeable future

During the year the three operating leases held by the company were sold to a third party The gain on sale of these leases was £1,130,000

The results of the company show a profit before taxation of £6,912,000 (2011 £6,763,000 profit as restated) for the year as set out in the statement of comprehensive income on page 5

The company has shareholder's equity of £16,279,000 (2011 £34,811,000 deficit as restated)

In accordance with LBG's reporting policy regarding the interpretation of International Financial Reporting Standards (IFRS's), a prior year adjustment has been made to the 2011 and 2010 comparative figures to correct the finance lease receivables, amounts owed by group companies, amounts owed to group companies and retained earnings balances in the balance sheet For further details, see note 1(j)

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2011 £nil)

DIRECTORS

The names of the directors of the company who were in office at the date of the signing of financial statements are shown on page 1 The following changes in directors have taken place during and since the year end

	Appointed	Resigned/ceased to be a director
A J Cumming	-	3 April 2012
S B Allen	-	30 April 2012
T J Cooke	18 May 2012	14 August 2012
S P Shelley	18 May 2012	21 August 2012
R A Issacs	18 May 2012	13 December 2012
K J Macdonald	-	21 March 2013
S C Gledhill	-	29 May 2013
G A Fox	29 May 2013	-

No director had any interest in any material contract or arrangement with the company during or at the end of the year

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

DIRECTORS' INDEMNITIES

The directors have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision" These deeds are in force during the whole of the financial year (or from the date of appointment in respect of the directors who join the board during the financial year) The indemnities remain in force at the date of signing these financial statements Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc

REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the directors' report is approved

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

AUDITORS' APPOINTMENT

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately For further details please refer to note 20 'Risk management of financial instruments' in these financial statements

KEY PERFORMANCE INDICATORS ('KPIs')

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The company follows 'The Prompt Payment Code' published by the Department for Businesses Innovation and Skills (BIS) regarding the making of payments to suppliers Information about the 'Prompt Payment Code' may be obtained by visiting www promptpaymentcode.org.uk

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

As the company owed no amounts to trade creditors at 31 December 2012, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2011 nil)

On behalf of the board

S A Fox
Director

Date 24/10/13

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

We have audited the financial statements of Bank of Scotland Structured Asset Finance Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Balance Sheet the Statement of Changes in Shareholder's Equity, the Cash Flow Statement, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the report of the directors to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Edinburgh

Date 30/10/2013

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Note	2012 £000	Restated 2011 £000
Investment income	2	1,160	5,086
Finance income	3	29,099	37,260
Operating lease income	4	7,374	8,530
Operating lease depreciation and other costs	12	(3,800)	(4,516)
Finance costs	5	(30,853)	(37,266)
		2,980	9,094
Other operating income	6	1,228	1,351
Other operating expenses	7	(3,665)	-
Impairment charge	8	(3,145)	(3,066)
Administration expenses	9	(169)	(238)
Foreign exchange gain/(loss)		9,683	(378)
Profit before taxation	10	6,912	6,763
Taxation credit	11	44,178	5,447
Profit after tax and total comprehensive income for the year attributable to owners of the parent		51,090	12,210

The accompanying notes are an integral part of the Financial Statements

BALANCE SHEET
As at 31 December 2012

	Note	2012 £000	Restated 2011 £000	Restated 2010 £000
Assets				
Non-current assets				
Property, plant and equipment	12	-	51,506	56,022
Investment in subsidiary undertakings	13	147,076	147,076	147,076
Finance lease receivables	14	314,099	325,409	336,461
Total non-current assets		461,175	523,991	539,559
Current assets				
Finance lease receivables	14	10,355	7,519	3,360
Amounts owed by group companies	15	470,598	913,579	1,190,988
Other debtors		8,312	6,308	6,480
Total current assets		489,265	927,406	1,200,828
Total assets		950,440	1,451,397	1,740,387
Liabilities				
Current liabilities				
Amounts owed to group companies	16	864,864	1,405,890	1,697,736
Other creditors		9,854	833	757
Total current liabilities		874,718	1,406,723	1,698,493
Non-current liabilities				
Deferred taxation	17	59,443	79,485	88,915
Total non-current liabilities		59,443	79,485	88,915
Equity				
Share capital	18	-	-	-
Retained earnings	19	16,279	(34,811)	(47,021)
Total equity		16,279	(34,811)	(47,021)
Total liabilities and equity		950,440	1,451,397	1,740,387

The financial statements on pages 5 to 21 were approved by the Board of Directors on 29|10|2013 and signed on its behalf by

G A Fox
Director

Registered Number 02279167

The accompanying notes are an integral part of the Financial Statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital £000	Retained earnings £000	Total £000
Balance at 31 December 2010 (as restated)	18, 19	-	(47,021)	(47,021)
Total comprehensive income for the year				
Profit for the year as restated	19	-	12,210	12,210
Balance at 31 December 2011 (as restated)	18, 19	-	(34,811)	(34,811)
Total comprehensive income for the year				
Profit for the year	19	-	51,090	51,090
Balance at 31 December 2012	18 19	-	16,279	16,279

The accompanying notes are an integral part of the Financial Statements

CASH FLOW STATEMENT
For the year ended 31 December 2012

	Note	2012 £000	Restated 2011 £000
Net cash flow from operating activities	21	544,226	471,993
Investing activities			
Proceeds received from sale of operating lease assets		48,835	-
Net cash flow from investing activities		48,835	-
Financing activities			
Movement in bank borrowings		(528,111)	(451,898)
Net cash flow from financing activities		(528,111)	(451,898)
Exchange loss on cash and cash equivalents		(724)	(96)
Net movement in cash and cash equivalents		64,226	19,999
Cash and cash equivalents at beginning of the year		264,199	244,200
Cash and cash equivalents at end of the year		328,425	264,199
Cash and cash equivalents are comprised of			
Cash at bank	15	1,000	668
Bank deposits	15	327,425	263,531
		328,425	264,199

The accompanying notes are an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention

The financial statements have been prepared in accordance with Companies Act 2006 applicable to companies reporting under IFRSs

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future The validity of this assumption depends on the continuing financial support provided by Bank of Scotland plc After making appropriate enquiries, the directors believe that it is appropriate for the financial statements to be prepared on the going concern basis

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities income and expenses Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected The accounting policies deemed critical to the company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below

- Impairment
The company regularly reviews the portfolio of financial assets for impairment In determining whether an impairment has occurred at the balance sheet date the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings, such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on repayments or values of underlying assets Where this is the case, the impairment loss is measured in accordance with note 1(d) below

1(a) Property, plant and equipment

Property, plant and equipment is held at cost less accumulated depreciation Depreciation is calculated on a straight line basis over the estimated useful life of the asset less any residual value

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use

1(b) Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at historical cost, less any provision for impairment

Dividend income is recognised when the right to receive payment is established

1(c) Leases

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

When assets are leased under a finance lease the amount due from a lessee is recorded as a receivable at the present value of the lease payments being the company's net investment in the lease Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the company's net investment in the lease

Initial direct costs attributed to negotiating and arranging a finance lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term Fees and commissions received are deferred and recognised as an adjustment to the effective interest rate on the lease over the lease term

When assets are leased under an operating lease the leased asset is included within property, plant and equipment at cost, including any initial direct costs, and depreciated over the life of the lease on a straight line basis after taking into account anticipated residual values Operating lease rental income is recognised on a straight line basis over the life of the lease

A change in corporation tax can give rise to a reduction or increase in deferred tax Due to tax rate variation clauses in some of the company's this may lead to a reduction or increase in lease rentals This change in the lease rentals can give rise to a change in the interest rate implicit in the lease which when applied retrospectively, produces a one-off adjustment of the finance lease receivables carrying value This one-off adjustment is reported as either an impairment or other income in the Statement of Comprehensive Income or Income Statement

1 Accounting policies (continued)

1(d) Impairment

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired

The criteria that the company uses to determine that there is objective evidence of an impairment loss include

- Delinquency in contractual payments of principal and/or interest,
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty,
- Restructuring of debt to reduce the burden on the borrower,
- Breach of loan covenants or conditions, and
- Initiation of bankruptcy

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's implicit rate in the lease

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years A reversal of an impairment loss is recognised as a credit to the income statement

1(e) Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised Income tax payable on profits is recognised as an expense in the period in which those profits arise The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised Deferred tax related to fair value re-measurement of financial assets and liabilities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss

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

1(f) Dividends

Dividends are recognised in equity only when the company has the obligation to pay the ordinary shareholder

1(g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months The prior year comparatives within the cash flow statement have been reclassified to conform to the current year presentation

1(h) Fair value

The fair value of finance lease receivables is derived from a present value cash flow model of expected cash flows from the lease using current market interest rates and margin for the risks inherent in the lease

1(i) Foreign currency translation

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

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

1 Accounting policies (continued)

1(j) Prior year restatement

The comparatives for the year ended 31 December 2012 have been restated in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" to reflect the correct finance lease receivables, amounts owed by group companies, amounts owed to group companies and retained earnings

The impact of this restatement on the 2011 balance sheet is to decrease finance lease receivables by £307,000, decrease amounts owed by group companies by £3,722,000, increase amounts owed to group companies by £4,716,000 and increase retained earnings by £687,000 The impact of this restatement on the 2011 statement of comprehensive income is to increase finance income by £859,000, increase impairment charge by £277,000 and decrease taxation credit by £155,000

The impact of this restatement on the 2010 balance sheet is to increase amounts owed by group companies by £357,000, increase amounts owed to group companies by £97,000 and increase retaining earnings by £260,000

1(k) Prior year reclassification of comparatives

The comparatives for the year ended 31 December 2012 have been adjusted to conform to the current year presentation regarding the disclosure of amounts due by fellow subsidiary undertakings, as a component of amounts owed by group companies

The impact of this reclassification on the 2011 balance sheet is to increase amounts due by fellow subsidiary undertakings by £195,569,000 and increase amounts due to fellow subsidiary undertakings by £195,569,000, as a component of amounts owed to group companies

The impact of this reclassification on the 2010 balance sheet is to increase amounts due by fellow subsidiary undertakings by £230,653,000 and increase amounts due to fellow subsidiary undertakings by £230,653,000, as a component of amounts owed to group companies

The adjustments had no impact on the results of the company

2 Investment income

	2012 £000	2011 £000
Dividend income	1,160	5,086
	1,160	5,086

Dividends of £1,160,000 (2011 £5,086,000) were received during the year from subsidiary undertakings

3 Finance income

	2012 £000	Restated 2011 £000
Finance lease income	19,081	19,540
Interest receivable from other group companies	10,018	17,715
Other interest receivable	-	5
	29,099	37,260

Finance lease income represents the income component of finance lease receivables earned in the year, being finance lease rentals less capital repayment

NOTES TO THE FINANCIAL STATEMENTS

4 Operating lease income

	2012 £000	2011 £000
Operating lease income	7,374	8,530
	7 374	8,530

There were no lease rentals receivable during the year that were contingent on events other than the terms of the lease, Libor rates and UK corporation tax rates (2011 £nil)

5 Finance costs

	2012 £000	2011 £000
Interest payable to other group companies	30,833	37,266
Other interest payable	20	-
	30,853	37,266

6 Other operating income

	2012 £000	2011 £000
Sundry operating income	98	1,351
Gain on sale of operating lease assets	1,130	-
	1,228	1,351

During the year the three operating leases held by the company were sold to a third party The gain on sale of these leases was £1,130,000

7 Other operating expenses

	2012 £000	2011 £000
Debt due from group companies waived	3,665	-
	3,665	-

During the year the company waived loans of £3,665,000 (£165,000 owed by CBRail limited and £3,500,000 owed by CBRail Sarl Limited)

8 Impairment charge

	2012 £000	Restated 2011 £000
Tax rate variation	3,145	3,066
	3,145	3,066

The reduction in the main rate of corporation tax from 25% to 24% and then to 23% is disclosed further in note 17

The change in the rates of corporation tax has given rise to a reduction in deferred taxation and, because of tax rate variation clauses in the leases, a reduction in the lease rentals This reduction in rentals has given rise to a reduction in the interest rate implicit within the lease which when applied retrospectively, has produced an impairment of the finance lease receivables

9 Administration expenses

	2012 £000	2011 £000
Professional fees and other related expenses	169	238
	169	238

10 Profit before taxation

Audit fees for the company are borne by the ultimate parent company, the audit fee attributed to this company for the year was £8,500 (2011 £8,500) The company has no employees and the directors received no remuneration in respect of their services to the company

11 Taxation credit

	2012 £000	Restated 2011 £000
The taxation credit for the year comprises		
Current tax payable on profit for the year	(18,581)	(3,860)
Adjustment in respect of prior year	42,717	(123)
Total current tax receivable/(payable) for the year	24,136	(3,983)
Deferred taxation (Note 17)	14,576	3,014
Adjustment in respect of prior year (Note 17)	(1)	-
Impact of tax rate change (Note 17)	5,467	6,416
Total taxation credit for the year	44,178	5,447

Where taxation on the company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 24 5% (2011 26 5%), the differences are explained below

	2012 £000	2011 £000
Profit before taxation	6,912	6,763
Tax at standard rate of corporation tax	(1,693)	(1,793)
Impact of tax rate change	5,467	6,416
Adjustment in respect of prior year	42,716	(123)
Disallowed and non-taxable items	(1,414)	1,272
Other items	(898)	(325)
Total taxation credit	44,178	5,447

12 Property, plant and equipment

Operating lease assets are represented by property, plant and equipment as follows

	2012 £000	2011 £000
Original cost		
At beginning of the year	90,673	90,673
Disposals during the year	(90,673)	-
At end of the year	-	90,673
Depreciation		
At beginning of the year	(39,617)	(35,336)
Charge for the year	(3,597)	(4,281)
Disposals during the year	43,214	-
At end of the year	-	(39,617)
Initial direct costs		
At beginning of the year	450	685
Charge for the year	(203)	(235)
Disposals during the year	(247)	-
At end of the year	-	450
Net book value at end of the year	-	51,506

Future minimum lease payments receivable under operating lease	2012 £000	2011 £000
Within 1 year	-	8,500
2-5 years inclusive	-	8,670
After 5 years	-	801
	-	17,971

During the year the three operating leases held by the company were sold to a third party The gain on sale of these leases was £1,130,000

13 Investment in subsidiary undertakings

	2012 £000	2011 £000
At beginning of the year	147,076	147,076
At end of the year	147,076	147,076

13 Investment in subsidiary undertakings (continued)

The subsidiary undertakings of the company for the year ended 31 December 2012 are listed below All of the subsidiaries are registered in England and Wales, except Katrine Leasing Limited and Nevis Leasing Limited, which are registered in Jersey

Company name	Ownership & Voting (%)	Accounting reference date	Nature of business
Barents Leasing Limited	100	31 March 2012	Investment
Halifax Leasing (March No 2) Limited	100	31 March 2012	Leasing
Kanto Leasing Limited	100	31 March 2012	Leasing
Seadance Leasing Limited	100	31 March 2012	Investment
Seaspray Leasing Limited	100	31 March 2012	Leasing
Tranquility Leasing Limited	100	31 March 2012	Leasing
Halifax Leasing (June) Limited	100	30 June 2012	Leasing
Ocean Leasing (July) Limited	100	31 July 2012	Leasing
Halifax Leasing (September) Limited	100	30 September 2012	Leasing
Ocean Leasing (No 1) Limited	100	30 September 2012	Investment
Ocean Leasing (No 2) Limited	100	30 September 2012	Leasing
Bank of Scotland LNG Leasing (No 1) Limited	100	31 December 2012	Leasing
BOS Aircraft Holdings Limited	100	31 December 2012	Investment
BOSSAF Rail Limited	100	31 December 2012	Leasing
Chariot Finance Limited	100	31 December 2012	Leasing
Katrine Leasing Limited	100	31 December 2012	Cash management
Nevis Leasing Limited	74	31 December 2012	Leasing
Nordic Leasing Limited	100	31 December 2012	Leasing
Oval Leasing Limited	100	31 December 2012	Leasing
Pacific Leasing Limited	100	31 December 2012	Leasing
Seabreeze Leasing Limited	100	31 December 2012	Cash management
Seaspirit Leasing Limited	100	31 December 2012	Leasing
Shibden Dale Limited	100	31 December 2012	Investment

14 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
		Restated		Restated
	2012	2011	2012	2011
Amounts receivable under finance leases	£000	£000	£000	£000
Within 1 year	23,404	22,249	10,355	7,519
2 - 5 years inclusive	99,248	91,882	33,220	28,433
After 5 years	383,591	415,316	280,879	296,976
	506,243	529,447	324,454	332,928
Less Unearned finance income	(181,789)	(196,519)		
Present value of minimum lease payments receivable	324,454	332,928		
Analysed as				
Non-current finance lease receivable	314,099	325,409		
Current finance lease receivables	10,355	7,519		
	324,454	332,928		

The fair value of the company's finance lease receivables at 31 December 2012 is estimated at £316,000,000 (2011 £334,000,000)

15 Amounts owed by group companies

	2012 £000	Restated 2011 £000
Cash at bank	1,000	668
Bank deposits	327,425	263,531
Amounts due from fellow subsidiary undertakings	140,887	648,094
Amounts due from parent undertaking	1,286	1,286
	470,598	913,579

For further details please refer to note 22

16 Amounts owed to group companies

	2012 £000	Restated 2011 £000
Bank borrowings	621,602	1,151,321
Amounts due to fellow subsidiary undertakings	213,738	200,715
Group relief payable	29,524	53,854
	864,864	1,405,890

For further details please refer to note 22

17 Deferred taxation

	2012 £000	2011 £000
At beginning of the year	79,485	88,915
Deferred taxation credit for the year	(14,576)	(3,014)
Adjustment in respect of prior year	1	-
Impact of tax rate change	(5,467)	(6,416)
At end of the year	59,443	79,485

The deferred taxation credit in the income statement comprises the following

	2012 £000	2011 £000
Capital allowances on assets leased to customers	20,042	9,430
Total deferred taxation credit	20,042	9,430

Deferred taxation liabilities are comprised as follows

	2012 £000	2011 £000
Deferred taxation liability		
Capital allowances on assets leased to customers	59,443	79,485
Total deferred taxation liabilities	59,443	79,485

On 21 March 2012, the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012 This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012 In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013 The change in the main rate of corporation tax from 25% to 23% has resulted in a reduction in the Company's net deferred tax liability at 31 December 2012 of £5,467,000 comprising a £5,467,000 credit included in the income statement

18 Share capital

During the year, as permitted by the Companies Act 2006, the Company removed references to authorised share capital from its articles of association

	2012 £	2011 £
Allotted, issued and fully paid		
Ordinary shares of £1 each	2	2
	2	2

The company's immediate parent company is Bank of Scotland plc The company regarded by the directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member Bank of Scotland plc is the parent company of the smallest such group of undertakings Copies of the group accounts may be obtained from the company secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the group's regulatory capital requirements

The company's parent manages the company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing

The company's capital comprises all components of equity, movements in which appear in the statement of changes in equity

19 Retained earnings

	2012 £000	Restated 2011 £000
At beginning of the year	(34,811)	(47,021)
Profit after tax and total comprehensive income for the year	51,090	12,210
At end of the year	16,279	(34,811)

20 Risk management of financial instruments

The primary financial risks affecting the company are credit risk, liquidity risk and market risk (which include interest rate risk and foreign currency risk) Information on the management of these financial risks and further disclosures is given below

In accordance with IAS 39 "Financial instruments Recognition and measurement ", finance lease receivables are designated as loans and receivables and all other financial assets are designated as held at amortised cost The accounting polices in note 1 describe how different classes of financial instruments are measured and how income and expenses are recognised

Credit risk management

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation

The maximum credit risk exposure of the group in the event of other parties failing to perform their obligations is detailed below The maximum exposure to loss is considered to be the balance sheet carrying amount as at 31 December 2012

20 Risk management of financial instruments (continued)

Credit risk management (continued)

	2012 £000	Restated 2011 £000
Financial assets which are neither past due nor impaired for credit risk		
Finance lease receivables	324,454	332,928
Amounts owed by group companies	470,598	913,579
Other debtors	8,312	6,308
Total credit risk exposure	803,364	1,252,815

Financial assets by credit rating

At 31 December 2012	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
Finance lease receivables	-	-	-	-	324,454	-	324,454
Amounts owed by group companies	-	-	470,598	-	-	-	470,598
Other debtors	-	-	-	-	-	8,312	8,312
Total	-	-	470,598	-	324,454	8,312	803,364

At 31 December 2011 as restated	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
Finance lease receivables	-	-	-	-	332,928	-	332,928
Amounts owed by group companies	-	-	913,579	-	-	-	913,579
Other debtors	-	-	-	-	-	6,308	6,308
Total	-	-	913,579	-	332,928	6,308	1,252,815

At the balance sheet date the company assesses if there is objective evidence that the financial assets have become impaired Evidence of impairment may include indications that the counterparty is experiencing financial difficulty, default or delinquency in settlements of amounts due or debt restructurings to reduce the financial burden on the counterparty

At 31 December 2012 and 2011 there were no impairments relating to credit risk against any financial assets nor any lease receivables past due on scheduled lease payments The credit risk exposure under short–term debtors, deposits and other financial assets are represented by the book values in the above table

For financial assets held at amortised cost the fair value approximates to their carrying values, except for leases whose fair value is disclosed in note 14

20 Risk management of financial instruments (continued)

Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial asset

The liquidity profile of financial liabilities at year end was as follows

At 31 December 2012	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	253,116	253,116
Up to 1 month	-	-	-
1-3 months	-	-	-
3-12 months	621,602	-	621,602
1-5 years	-	-	-
Over 5 years	-	-	-
Total	621,602	253,116	874,718

At 31 December 2011 as restated	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	255,402	255,402
Up to 1 month	-	-	-
1-3 months	-	-	-
3-12 months	1,151,321	-	1,151,321
1-5 years	-	-	-
Over 5 years	-	-	-
Total	1,151,321	255,402	1,406,723

Bank borrowings and the associated interest payable upon them are borrowed short term and all borrowings are advanced by a fellow subsidiary undertaking of Lloyds Banking Group plc

Other liabilities are repayable on demand

The fair value of current liabilities approximates their carrying values

Interest rate risk management

Interest rate risk is the risk that the future cash flows and fair values of a financial instrument may fluctuate because of changes in market interest rates

The company takes into account the exposure on fluctuations in the prevailing levels of market interest rates on its cash flows when structuring its operations by ensuring the interest terms of its finance income is matched to the variable interest terms of the borrowing used to finance the leasing portfolio As such the company has no material exposure to financial risk arising from changes in market interest rates Interest rate risk is hedged using interest rate swaps

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income by £1,554,000 and finance costs by £1,554,000

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates

Exposure to foreign currency fluctuations arises due to its financial assets and liabilities being denominated in foreign currencies The company hedges the majority of its foreign currency exposure by taking out foreign currency swaps where necessary The fair value of any currency swap is included within derivative financial instruments if applicable

At the year end, if the currency had fluctuated by +/- 25 basis points against the USD, with all other variables held constant, the change to post tax profit would be £568,000

20 Risk management of financial instruments (continued)

Foreign currency risk (continued)

Below are the assets and liabilities of the company disclosed in US Dollars

	2012 $000	Restated 2011 $000
Financial assets		
Amounts owed by group companies	40,602	26,182
	40,602	26,182
Financial liabilities		
Amounts owed to group companies	410,463	358,793
	410,463	358,793

21 Notes to the cash flow statement

	2012 £000	Restated 2011 £000
Profit from operations	6,912	6,763
Add/(less) non cash items		
Depreciation	3,800	4,516
Impairment charge	3,145	3,066
Foreign exchange movement	(9,683)	378
Gain on sale of operating lease assets	(1,130)	-
Operating cash flows before movements in working capital	3,044	14,723
Movement in receivables	510,525	497,245
Movement in payables	30,851	(35,007)
Cash generated by operations	544,420	476,961
Group relief paid	(194)	(4,968)
Net cash flow from operations	544,226	471,993

22 Related parties

The company's related parties include other companies in the Lloyds Banking Group and the company's key management personnel Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company, which is determined to be the company's directors

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

Nature of transaction	Related party	2012 £000	Restated 2011 £000
Cash at bank	Fellow subsidiary undertaking	1,000	668
Bank deposits	Fellow subsidiary undertaking	327,425	263,531
Amounts due from fellow subsidiary undertakings	Fellow subsidiary undertaking	140,887	648,094
Amounts due from parent undertaking	Immediate parent undertaking	1,286	1,286
Group relief payable	Fellow subsidiary undertaking	(29,524)	(53,854)
Amounts due to fellow subsidiary undertakings	Fellow subsidiary undertaking	(213,738)	(200,715)
Bank borrowings	Fellow subsidiary undertaking	(621,602)	(1,151,321)

22 Related parties (continued)

Interest of £10,018,000 (2011 £17,715,000) was received during the year whilst interest of £30,853,000 (2011 £37,266,000) was paid during the year to group companies

The company paid group relief of £194,000 (2011 £4,968,000) during the year to fellow subsidiary undertakings

23 Future developments

The following accounting standard changes will impact the company in the future financial periods

Pronouncement	Nature of change	IASB effective date
IAS 1, 'Presentation of Financial Statements', on presentation of items of other comprehensive income	Requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments)	Annual periods beginning on or after 1 July 2012
IAS 32 Financial instruments Presentation', on offsetting financial assets and financial liabilities	Updates the application guidance in IAS 32 Financial instruments Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet	Annual periods beginning on or after 1 January 2014
IFRS 7, 'Financial instruments Disclosures, on offsetting financial assets and financial liabilities	Enhances current offsetting disclosures These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements	Annual periods beginning on or after 1 January 2013
IFRS 9, 'Financial Instruments'[1]	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities Requires financial assets to be classified into two measurement categories fair value and amortised cost, on the basis of the objectives of the entity s business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for-sale financial asset and held-to-maturity investment categories in existing IAS 39 will be eliminated The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2015
IFRS 12, 'Disclosure of Interests in Other Entities'	Requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows	Annual periods beginning on or after 1 January 2013
IFRS 13, 'Fair Value Measurement'	The standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements	Annual periods beginning on or after 1 January 2013

[1] At the date of this report, these pronouncements are awaiting EU endorsement

The initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the Financial Statements

24 Post balance sheet events

The Finance Act 2013, which passed into law on 17 July 2013, included legislation to reduce the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 This additional reduction to 20% is estimated to reduce the net deferred tax liability by a further £7,744,000 and will be reflected in the financial statements for the year ended 31 December 2013