

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

Annual report and financial statements for the year ended 31 December 2015



Member of Lloyds Banking Group

Registered Number: 02279167



BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

DIRECTORS

C G Dowsett
G A Fox

COMPANY SECRETARY

M A A Johnson

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

BANKERS

Bank of Scotland plc
The Mound
Edinburgh
EH1 1YZ

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

02279167

STRATEGIC REPORT

The directors present their strategic report of Bank of Scotland Structured Asset Finance Limited ("the company") for the year ended 31 December 2015.

REVIEW OF THE BUSINESS

The company is part of the Commercial Banking division of the Lloyds Banking Group plc group of companies ("the Group"), principally focused on meeting the needs of commercial clients through the provision of asset finance. Strategic direction is set by the board, to ensure that the company's interests and other charges fully reflect the risks associated with its principal activities, while remaining profitable.

The principal activity of the company was the provision of asset finance to third parties through finance lease transactions and the holding of investments in subsidiary undertakings. The company's business has remained consistent during the year and there have been no material changes to its operations. The financial performance of the company is detailed in the statement of comprehensive income on page 7.

During the year the company terminated four of its five finance leases, realising a gain on termination of £3,290,000. The remaining finance lease has a net book value of £107,367,000. Finance lease income of £5,455,000 was received in the year, while changes in accounting assumptions resulted in additional income of £1,682,000 and tax rate variation clauses in the leases resulted in an impairment of £712,000.

The investment in subsidiary undertakings was reduced by £110,538,000 as a result of a share capital reduction in Shibden Dale Limited.

Dividend income of £213,849,000 was received from the company's subsidiary undertakings during the year.

The position of the company at the year end is detailed in the report of the directors on pages 3 and 4.

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 17 '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.

By order of the board



C G Dowsett
Director

Date: 29 September 2016

DIRECTORS' REPORT

The directors present their report and audited financial statements of the company for the year ended 31 December 2015.

REVIEW OF BUSINESS

During the year, the principal activity of the company was the provision of asset finance to third parties through finance lease transactions and the holding of investments in subsidiary undertakings and this is likely to continue for the foreseeable future.

The results of the company show a profit before taxation of £102,815,000 (2014: £18,232,000) for the year as set out in the statement of comprehensive income on page 7.

The company has shareholder's equity of £55,515,000 (2014: £19,242,000).

DIVIDENDS

On 15 December 2015, the directors authorised payment of a dividend of £67,105,000 (2014: £nil).

DIRECTORS

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

Appointed	Resigned/ceased to be a director
R O Williams	19 September 2016

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 prepared 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;
- 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 Act. 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.

In accordance with Section 418 of the Act, 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.

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the directors of the company, including former directors who resigned during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Act. The deed was in force during the whole of the financial year and at the date of approval of the financial statements (or from the date of appointment in respect of directors who joined the board of the company during the financial year). Directors no longer in office but who served on the board of the company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors' and officers' liability insurance cover which was in place throughout the financial year.

DIRECTORS' REPORT (continued)

INDEPENDENT AUDITORS' APPOINTMENT

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

On behalf of the board



C G Dowsett
Director

29 September 2016

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

Report on the Financial Statements

Our opinion

In our opinion, Bank of Scotland Structured Asset Finance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements comprise:

- the Statement of Comprehensive Income for the year ended 31 December 2015;
- the Balance Sheet as at 31 December 2015;
- the Statement of Changes in Shareholder's Equity for the year then ended;
- Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, 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) ("ISAs (UK & 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED
(CONTINUED)**

What an audit of financial statements involves

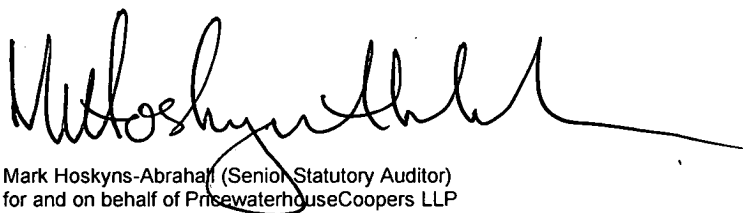
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

Edinburgh

Date: 29 September 2016

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Investment income	2	213,849	56,084
Finance income	3	9,640	19,806
Finance costs	4	<u>(14,345)</u>	<u>(22,400)</u>
		209,144	53,490
Other operating income	5	4,972	4,048
Impairment charge	6	(111,250)	(39,080)
Administration expenses	7	(74)	(240)
Foreign exchange gain		<u>23</u>	<u>14</u>
Profit before taxation	8	102,815	18,232
Taxation credit	9	<u>563</u>	<u>975</u>
Profit after taxation and total comprehensive income for the year attributable to owners of the parent		<u><u>103,378</u></u>	<u><u>19,207</u></u>

The accompanying notes on pages 11 to 20 are an integral part of the Financial Statements.

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

BALANCE SHEET
As at 31 December 2015

	Note	2015 £000	2014 £000
Assets			
Non-current assets			
Investment in subsidiary undertakings	11	3,913	114,451
Finance lease receivables	12	<u>107,367</u>	<u>108,119</u>
Total non-current assets		<u>111,280</u>	<u>222,570</u>
Current assets			
Finance lease receivables	12	-	149,309
Amounts owed by Group companies	13	345,749	349,695
Other debtors		<u>4</u>	<u>3,213</u>
Total current assets		<u>345,753</u>	<u>502,217</u>
Total assets		<u>457,033</u>	<u>724,787</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	14	385,459	657,670
Other creditors		<u>-</u>	<u>424</u>
Total current liabilities		<u>385,459</u>	<u>658,094</u>
Non-current liabilities			
Deferred taxation	15	<u>16,059</u>	<u>47,451</u>
Total non-current liabilities		<u>16,059</u>	<u>47,451</u>
Equity			
Share capital	16	-	-
Retained earnings		<u>55,515</u>	<u>19,242</u>
Total equity		<u>55,515</u>	<u>19,242</u>
Total liabilities and equity		<u>457,033</u>	<u>724,787</u>

The financial statements on pages 7 to 20 were approved by the Board of Directors on 29/09/16 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 02279167

The accompanying notes on pages 11 to 20 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Retained earnings £000	Total equity £000
Balance at 31 December 2013		-	35	35
Total comprehensive income for the year				
Profit for the year		-	19,207	19,207
Balance at 31 December 2014	16	-	19,242	19,242
Dividends paid during the year	10	-	(67,105)	(67,105)
Total comprehensive income for the year				
Profit for the year		-	103,378	103,378
Balance at 31 December 2015	16	-	55,515	55,515

The accompanying notes on pages 11 to 20 are an integral part of the Financial Statements.

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Profit before taxation		102,815	18,232
Add/(less) non cash items:			
Impairment charge – investments	11	110,538	39,080
Impairment charge – finance leases	5,6	(970)	-
Dividend paid	10	(67,105)	-
Foreign exchange movement		(23)	(14)
Operating cash flows before movements in working capital		145,255	57,298
Decrease/(increase) in receivables		169,725	31,802
(Decrease)/increase in payables		(126,432)	3,261
Cash generated by operations		188,548	92,361
Group relief received/(paid)		-	(24,758)
Net cash flow from operating activities		188,548	67,603
Financing activities			
Decrease in bank borrowings		(176,603)	(90,335)
Net cash flow from financing activities		(176,603)	(90,335)
Exchange gain on cash and cash equivalents		(405)	1,759
Increase/(decrease) in cash and cash equivalents		11,540	(20,973)
Cash and cash equivalents at beginning of the year		236,750	257,723
Cash and cash equivalents at end of the year		248,290	236,750
Cash and cash equivalents are comprised of:			
Cash at bank	13	425	740
Bank deposits	13	247,865	236,010
		248,290	236,750

The accompanying notes on pages 11 to 20 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 also comply with the relevant provisions of Part 15 of the Companies Act 2006.

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(c) below.

1(a) Investment in subsidiary undertakings

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

These separate financial statements contain information about Bank of Scotland Structured Asset Finance Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption under IAS 27 (revised), 'Consolidated and separate financial statements', from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its parent, Lloyds Banking Group plc.

1(b) 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.

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 leases 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.

1(c) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)**1(c) Impairment (continued)**

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 statement of comprehensive income.

1(d) 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 statement of comprehensive income 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(e) Dividends

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

1(f) 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.

1(g) 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(h) 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 pounds 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 statement of comprehensive income except when deferred in equity as qualifying cash flow hedges.

2 Investment income

	2015 £000	2014 £000
Dividend income	213,849	56,084
	<u>213,849</u>	<u>56,084</u>

Dividends of £3,573,000 (£3,573,000 per share), £16,409,000 (£164,090 per share), £790,000 (£1.58 per share) and £193,077,000 (£193,077,000 per share) were received during the year from subsidiary undertakings Seaspray Leasing Limited, Seadance Leasing Limited, BoS Aircraft Holdings Limited and Shiddendale Limited respectively.

In the prior year, dividends of £43,680,000 (£436,800 per share), £2,409,000 (£24,090 per share) and £9,995,000 (£4,997,500 per share) were received during the year from subsidiary undertakings Katrine Leasing Limited, Nevis Leasing Limited and Seabreeze Leasing Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Finance income

	2015 £000	2014 £000
Finance lease income	5,455	14,131
Interest receivable on bank deposits with other group companies	<u>4,185</u>	<u>5,675</u>
	<u>9,640</u>	<u>19,806</u>

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

4 Finance costs

	2015 £000	2014 £000
Interest payable to other group companies	14,345	22,236
Interest payable to third party	<u>-</u>	<u>164</u>
	<u>14,345</u>	<u>22,400</u>

5 Other operating income

	2015 £000	2014 £000
Gain on sale of finance lease assets	3,290	4,048
Change in accounting assumptions	<u>1,682</u>	<u>-</u>
	<u>4,972</u>	<u>4,048</u>

During the year changes were made in respect of the accounting assumptions in several of the company's finance leases. The primary changes relate to a change in the amount and date of the balloon rental payable towards the end of 2015 and a change in the model interest rate, replacing an assumed rate with the rate of actual fixed funding that was put in place. A further change was to amend assumed termination dates to the actual termination dates during 2015.

6 Impairment charge

	2015 £000	2014 £000
Tax rate variation	712	6,455
Impairment of investments	<u>110,538</u>	<u>32,625</u>
	<u>111,250</u>	<u>39,080</u>

The reduction in the main rate of corporation tax from 20% to 18% is disclosed further in note 9.

The change in the rates of corporation tax has given rise to a reduction in deferred taxation on leases 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.

7 Administration expenses

	2015 £000	2014 £000
Professional fees and other related expenses	<u>74</u>	<u>240</u>
	<u>74</u>	<u>240</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Profit before taxation

Audit fees for the company are borne by the ultimate parent company, which makes no recharge to the company.

The company has no employees (2014: nil).

The directors, who are considered to be key management, received no remuneration in respect of their services to the company. The emoluments of the directors are paid by a fellow Group undertaking on behalf of the ultimate parent, Lloyds Banking Group plc, which makes no recharge to the company. The directors are also directors of a number of other subsidiaries of the Group and are also substantially engaged in managing their respective business areas within the Group. Given this, it is not possible to make an accurate apportionment of directors' emoluments in respect of their services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of the directors.

9 Taxation credit

	2015 £000	2014 £000
The taxation charge for the year comprises:		
Total current tax payable for the year	(30,829)	(993)
Deferred taxation (note 15)	30,929	2,116
Impact of tax rate change (note 15)	<u>463</u>	<u>(148)</u>
Total taxation credit for the year	<u>563</u>	<u>975</u>

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 20.5% (2014: 21.5%), the differences are explained below:

	2015 £000	2014 £000
Profit before taxation	<u>102,815</u>	<u>18,232</u>
Tax at standard rate of corporation tax	(20,820)	(3,920)
Impact of tax rate change	463	(148)
Non-taxable items	43,304	12,058
Disallowed items	<u>(22,384)</u>	<u>(7,015)</u>
Total taxation credit	<u>563</u>	<u>975</u>

The Finance Act 2013 was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance Act 2015 which was substantively enacted on 26 October 2015 included legislation to reduce the corporation tax rate applicable from 1 April 2017 to 19% and from 1 April 2020 to 18%.

The Finance Bill 2016, which was substantively enacted on 6 September 2016, further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

10 Dividends

	2015 £000	2014 £000
Dividends paid during the year	<u>67,105</u>	<u>-</u>
	<u>67,105</u>	<u>-</u>

On 31 December 2015, the company paid a dividend of £33,552,500 per share (2014: £nil).

11 Investment in subsidiary undertakings

	2015 £000	2014 £000
At beginning of the year	114,451	147,076
Impairment of investment	<u>(110,538)</u>	<u>(32,625)</u>
At end of the year	<u>3,913</u>	<u>114,451</u>

On 31 December 2015, the directors of Shibden Dale Limited approved a share capital reduction, resulting in an impairment of the company's investment in Shibden Dale Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Investment in subsidiary undertakings (continued)

The subsidiary undertakings of the company for the year ended 31 December 2015, all of which are registered in England and Wales, except Katrine Leasing Limited and Nevis Leasing Limited, which are registered in Jersey, are listed below:

<u>Company name</u>	<u>Ownership & Voting (%)</u>	<u>Class of shares</u>	<u>Accounting reference date</u>	<u>Nature of business</u>
Barents Leasing Limited	100	Ordinary	31 March 2015	Cash management
Halifax Leasing (March No. 2) Limited	100	Ordinary	31 March 2015	Leasing
Kanto Leasing Limited	100	Ordinary	31 March 2015	Cash management
Seadance Leasing Limited	100	Ordinary	31 March 2015	Leasing
Seaspray Leasing Limited	100	Ordinary	31 March 2015	Cash management
Halifax Leasing (June) Limited	100	Ordinary	30 June 2015	Leasing
Ocean Leasing July Limited	100	Ordinary	31 July 2015	Cash management
Tranquillity Leasing Limited	100	Ordinary	22 August 2015	Cash management
Halifax Leasing (September) Limited	100	Ordinary	30 September 2015	Leasing
Ocean Leasing (No. 1) Limited	100	Ordinary	30 September 2015	Investment
Ocean Leasing (No. 2) Limited	100	Ordinary	30 September 2015	Leasing
Bank of Scotland LNG Leasing (No. 1) Limited	100	Ordinary	31 December 2015	Leasing
BOSSAF Rail Limited	100	Ordinary	31 December 2015	Leasing
Chariot Finance Limited	100	Ordinary	31 December 2015	Cash management
Katrine Leasing Limited	100	Ordinary	31 December 2015	Cash management
Nevis Leasing Limited	74	Ordinary	31 December 2015	Cash management
Nordic Leasing Limited	100	Ordinary	31 December 2015	Leasing
Pacific Leasing Limited	100	Ordinary	31 December 2015	Leasing
Seabreeze Leasing Limited	100	Ordinary	31 December 2015	Cash management
Seaspirit Leasing Limited	100	Ordinary	31 December 2015	Leasing
Shibden Dale Limited	100	Ordinary	31 December 2015	Investment

12 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2015 £000	2014 £000	2015 £000	2014 £000
Amounts receivable under finance leases				
Within 1 year	5,723	158,822	-	149,309
2 - 5 years inclusive	33,723	32,408	4,914	2,496
After 5 years	151,377	161,887	102,453	105,623
	190,823	353,117	107,367	257,428
Less: Unearned finance income	(83,456)	(95,689)		
Present value of minimum lease payments receivable	107,367	257,428		
Analysed as:				
Non-current finance lease receivable	107,367	108,119		
Current finance lease receivables	-	149,309		
	107,367	257,428		

The fair value of the company's finance lease receivables at 31 December 2015 is estimated at £96,949,000 (2014: £252,000,000).

During the year, the company terminated 4 of its remaining leases, with a net book value of £164,686,000. Proceeds of £167,976,000 were received, resulting in a gain on termination of £3,290,000

13 Amounts owed by group companies

	2015 £000	2014 £000
Cash at bank	425	740
Bank deposits	247,865	236,010
Interest receivable	313	363
Amounts due from fellow subsidiary undertakings	93,939	112,582
Amounts due from immediate parent undertaking	3,207	-
	345,749	349,695

For further details please refer to note 18.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Amounts owed to group companies

	2015 £000	2014 £000
Bank borrowings	230,359	407,392
Interest payable	4,136	6,414
Amounts due to fellow subsidiary undertakings	39,847	233,711
Amounts due to parent undertakings	79,295	9,160
Group relief payable	31,822	993
	<u>385,459</u>	<u>657,670</u>

For further details please refer to note 18.

15 Deferred taxation

	2015 £000	2014 £000
At beginning of the year	47,451	49,419
Deferred taxation credit for the year	(30,929)	(2,116)
Impact of tax rate change	(463)	148
	<u>16,059</u>	<u>47,451</u>
At end of the year		

The deferred taxation credit in the statement of comprehensive income comprises the following:

	2015 £000	2014 £000
Capital allowances on assets leased to customers	30,929	2,116
Impact of tax rate change	463	(148)
	<u>31,392</u>	<u>1,968</u>

Deferred taxation liabilities are comprised as follows:

	2015 £000	2014 £000
Capital allowances on assets leased to customers	16,059	47,451
	<u>16,059</u>	<u>47,451</u>

The Finance Act 2013 was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance Act 2015 which was substantively enacted on 26 October 2015 included legislation to reduce the corporation tax rate applicable from 1 April 2017 to 19% and from 1 April 2020 to 18%.

The Finance Bill 2016, which was substantively enacted on 6 September 2016, further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

16 Share capital

	2015 £	2014 £
Allotted, issued and fully paid		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>
	<u>2</u>	<u>2</u>

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 shareholder's equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 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 policies 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 company 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.

	2015 £000	2014 £000
Financial assets which are neither past due nor impaired for credit risk:		
Finance lease receivables	107,367	257,428
Amounts owed by group companies	345,749	349,695
Other debtors	4	3,213
Total credit risk exposure	453,120	610,336

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each exposure or loan is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group plc. The table below reflects the credit rating of the financial assets portfolio net of any financial guarantees received.

Financial assets by credit rating:

	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
At 31 December 2015							
Finance lease receivables	-	-	-	107,367	-	-	107,367
Amounts owed by group companies	-	-	345,749	-	-	-	345,749
Other debtors	-	-	-	-	-	4	4
Total	-	-	345,749	107,367	-	4	453,120

	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
At 31 December 2014							
Finance lease receivables	-	-	-	257,428	-	-	257,428
Amounts owed by group companies	-	-	349,695	-	-	-	349,695
Other debtors	-	-	-	-	-	3,213	3,213
Total	-	-	349,695	257,428	-	3,213	610,336

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 2015 and 2014 there were no impairments relating to credit risk against any financial assets. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 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 assets.

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

At 31 December 2015	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	150,964	150,964
Up to 1 month	104,792	121	104,913
1-3 months	-	-	-
3-12 months	24	-	24
1-5 years	38,513	448	38,961
Over 5 years	87,030	3,567	90,597
Total	230,359	155,100	385,459
At 31 December 2014	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	250,702	250,702
Up to 1 month	113,114	-	113,114
1-3 months	-	-	-
3-12 months	161,261	-	161,261
1-5 years	46,724	-	46,724
Over 5 years	86,293	-	86,293
Total	407,392	250,702	658,094

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.

The fair value of current liabilities approximates their carrying values.

Other liabilities are repayable on demand.

Interest rate risk management:

The company takes into accounts the exposure on fluctuations in the prevailing levels of market interest rates on its own 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.

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income by £620,000 (2014: £590,000) and finance costs by £576,000 (2014: £1,018,000).

Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows 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, post tax profit would have changed by an insignificant amount primarily due to assets/liabilities denominated in USD.

Below are the assets and liabilities of the company denominated in US Dollars.

Foreign currency risk - carrying amount	2015 \$000	2014 \$000
Financial assets		
Amounts owed by group companies	17,377	12,135
	<u>17,377</u>	<u>12,135</u>
Financial liabilities		
Other creditors	16,786	11,729
	<u>16,786</u>	<u>11,729</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Related parties

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 financial statements 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 financial statements may be downloaded via www.lloydsbankinggroup.com.

The company's related parties include other companies in the 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, who are listed on page 1 of these financial statements.

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

Nature of transaction	Related party	Related party relationship	2015	2014	Terms and conditions	
			£000	£000	Repayment	Interest
Cash at bank	Bank of Scotland plc	Immediate parent undertaking	425	740	No fixed date	0%
Bank deposits	Bank of Scotland plc	Immediate parent undertaking	247,865	236,010	15/1/16 – 29/3/16	Variable
Amounts due from fellow subsidiary undertakings	Various	Fellow subsidiary undertakings	93,939	112,582	No fixed date	0%
Amounts due from immediate parent undertaking	Bank of Scotland plc	Immediate parent undertaking	3,207	-	No fixed date	0%
Group relief payable	Bank of Scotland plc	Immediate parent undertaking	(31,822)	(993)	No fixed date	0%
Amounts due to fellow subsidiary undertakings	Various	Fellow subsidiary undertakings	(39,847)	(233,711)	No fixed date	0%
Amounts due to parent company	Bank of Scotland plc	Immediate parent undertaking	(79,295)	(9,160)	No fixed date	0%
Bank borrowings	Bank of Scotland plc	Immediate parent undertaking	(230,359)	(407,392)	15/1/16 – 25/3/32	0%
Interest payable	Bank of Scotland plc	Immediate parent undertaking	(4,136)	(6,414)	15/1/16 – 25/3/32	N/A
Interest receivable	Bank of Scotland plc	Immediate parent undertaking	313	363	15/1/16 – 29/3/16	N/A

There were no doubtful debts or bad debt expenses relating to the above balances incurred during the year.

Dividends of £213,849,000 (2014: £56,084,000) were received during the year from subsidiaries.

Bank borrowings are interest bearing and during the year rates of interest between 0.5% and 6.4% (2014: 6.44%) were charged. Finance costs of £14,345,000 (2014: £22,236,000) were incurred during the year.

The company earned interest on bank deposits of £4,185,000 (2014: £5,675,000) on which rates of interest between 0.4% and 0.8% (2014: up to 2.74%) were received.

The company paid group relief of £nil (2014: £24,758,000) during the year to fellow subsidiary undertakings.

19 Adopted accounting standards

There were no new accounting standards adopted by the company during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Future developments

The following accounting standard changes will impact the company in the future financial years. Save as disclosed below, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the Financial Statements.

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS 9: 'Financial Instruments' ¹	<p>IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income 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 instruments. These changes are not expected to have a significant impact on the company.</p> <p>IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change is likely to result in an increase in the company's balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the company's lending portfolios and forecast economic conditions at the date of implementation. In February 2015, the Basel Committee on Banking Supervision published a consultative document outlining supervisory expectations regarding sound credit risk practices associated with implementing and applying an expected credit loss accounting framework. A final version is expected to be issued at the end of 2015.</p> <p>The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the company.</p>	Annual periods beginning on or after 1 January 2018

¹ As at the date of signing, this pronouncement is awaiting EU endorsement.

21 Post balance sheet events

One of the company's subsidiary undertakings, BOS Aircraft Holdings Limited, which has a carrying value of £303,000, was liquidated in May 2016.

Another subsidiary undertaking, Shibden Dale Limited, was approved for liquidation in September 2016.

22 Contingent liability

The Lloyds Banking Group (the Group) provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £39,111,000 (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.