

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

31. December 2013

Member of Lloyds Banking Group

Registered Number: 02279167

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COMPANIES HOUSE

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

DIRECTORS

C G Dowsett
G A Fox
R O Williams

COMPANY SECRETARY

M A A Johnson

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

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 the company for the year ended 31 December 2013

REVIEW OF THE BUSINESS

The company is part of the Commercial Banking division of 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 interest and other charges fully reflect the risks associated with its principal activities, while remaining profitable.

The company's business has remained consistent during the year and there has been no material changes to its operations. The financial performance of the company is detailed in the Statement of Comprehensive Income on page 7.

The position of the company at the year end is detailed in the Report of the Directors on page 3.

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.

By order of the board



G A Fox
Director

REPORT OF THE DIRECTORS

The directors present their report and audited financial statements for the year ended 31 December 2013.

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 loss before taxation of £22,718,000 (2012: £6,912,000 profit) for the year as set out in the statement of comprehensive income on page 7.

The company has shareholder's equity of £35,000 (2012: £16,279,000 surplus).

The directors did not authorise or pay any dividends during the year (2012: £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 the year:

	Appointed	Resigned/ceased to be a director
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 strategic report, 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

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 Companies Act 2006. 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 indemnities remain 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.

REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

In accordance with Section 418 of the Companies Act 2006, 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.

By order of the board



G.A. Fox
Director

Date: 25/09/14

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Bank of Scotland Structured Asset Finance Limited, comprise:

- Balance Sheet as at 31 December 2013;
- Statement of Comprehensive Income for the year then ended;
- Cash Flow Statement for the year ended;
- Statement of Changes in Shareholder's Equity for the year 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 their preparation 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the Financial Statements (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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year 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.

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

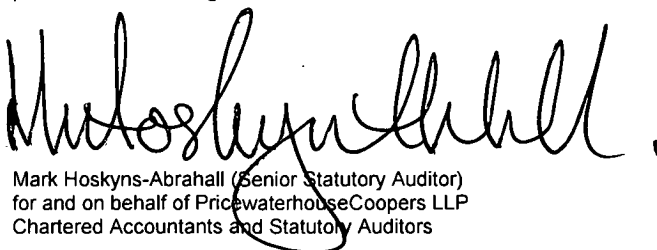
Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on 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.



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

Edinburgh

Date:

29/9/14.

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Note	2013 £000	2012 £000
Investment income	2	473	1,160
Finance income	3	24,831	29,099
Operating lease income	4	-	7,374
Operating lease depreciation and other costs	12	-	(3,800)
Finance costs	5	(27,305)	(30,853)
		<u>(2,001)</u>	<u>2,980</u>
Other operating income	6	2	1,228
Other operating expenses	7	(1,167)	(3,665)
Impairment charge	8	(4,939)	(3,145)
Administration expenses	9	(143)	(169)
Foreign exchange (loss)/gain		<u>(14,470)</u>	<u>9,683</u>
(Loss)/profit before taxation	10	(22,718)	6,912
Taxation credit	11	<u>6,474</u>	<u>44,178</u>
(Loss)/profit after tax and total comprehensive (loss)/income for the year attributable to owners of the parent		<u>(16,244)</u>	<u>51,090</u>

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

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

BALANCE SHEET
As at 31 December 2013

	Note	2013 £000	2012 £000
Assets			
Non-current assets			
Investment in subsidiary undertakings	13	147,076	147,076
Finance lease receivables	14	295,344	314,099
Total non-current assets		<u>442,420</u>	<u>461,175</u>
Current assets			
Finance lease receivables	14	16,975	10,355
Amounts owed by group companies	15	353,819	470,598
Other debtors		3,399	8,312
Total current assets		<u>374,193</u>	<u>489,265</u>
Total assets		<u>816,613</u>	<u>950,440</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	16	767,159	864,864
Other creditors		-	9,854
Total current liabilities		<u>767,159</u>	<u>874,718</u>
Non-current liabilities			
Deferred taxation	17	49,419	59,443
Total non-current liabilities		<u>49,419</u>	<u>59,443</u>
Equity			
Share capital	18	-	-
Retained earnings	19	35	16,279
Total equity		<u>35</u>	<u>16,279</u>
Total liabilities and equity		<u>816,613</u>	<u>950,440</u>

The financial statements on pages 7 to 22 were approved by the Board of Directors on 25/09/14 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 SHAREHOLDER'S EQUITY

	Note	Share capital £000	Retained earnings £000	Total £000
Balance at 31 December 2011	19	-	(34,811)	(34,811)
Total comprehensive income for the year				
Profit for the year	19	-	51,090	51,090
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2012	18, 19	-	16,279	16,279
Total comprehensive loss for the year				
Loss for the year	19	-	(16,244)	(16,244)
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2013	18, 19	-	35	35
		<hr/>	<hr/>	<hr/>

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

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

CASH FLOW STATEMENT
For the year ended 31 December 2013

	Note	2013 £000	Restated 2012 £000
Net cash flow from operating activities	21	47,442	541,918
Investing activities			
Proceeds received from sale of operating lease assets		-	48,835
Net cash flow from investing activities		-	48,835
Financing activities			
Movement on bank borrowings		(117,039)	(525,776)
Net cash flow from financing activities		(117,039)	(525,776)
Exchange rate losses on cash and cash equivalents		(527)	(724)
Net movement in cash and cash equivalents		(70,124)	64,253
Cash and cash equivalents at beginning of the year		327,847	263,594
Cash and cash equivalents at end of the year		257,723	327,847
Cash and cash equivalents are comprised of:			
Cash at bank	15	830	1,000
Bank deposits	15	256,893	326,847
		257,723	327,847

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.

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.

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(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.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

1(d) Impairment (continued)

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 statement of comprehensive income.

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

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(j) Prior year reclassification of comparatives

The prior year comparatives have been adjusted to conform to the current year presentation regarding the disclosure of interest receivable as a component of bank deposits. This reclassification is shown in note 15. In addition, the prior year comparatives have been adjusted to conform to the current year presentation regarding the disclosure of interest payable as a component of bank borrowings, this reclassification is shown in note 16. The adjustments had no impact on the results of the company.

NOTES TO THE FINANCIAL STATEMENTS

2 Investment income

	2013 £000	2012 £000
Dividend income	473	1,160
	<u>473</u>	<u>1,160</u>

Dividends of £473,000 (£236,500 per share) were received during the year from subsidiary undertaking Ocean Leasing (No.1) Limited.

3 Finance income

	2013 £000	2012 £000
Finance lease income	18,600	19,081
Interest receivable from other group companies	6,231	10,018
	<u>24,831</u>	<u>29,099</u>

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

4 Operating lease income

	2013 £000	2012 £000
Operating lease income	-	7,374
	<u>-</u>	<u>7,374</u>

In the prior year all three operating leases held by the company were disposed of (note 6).

5 Finance costs

	2013 £000	2012 £000
Interest payable to other group companies	27,305	30,833
Other interest payable	-	20
	<u>27,305</u>	<u>30,853</u>

6 Other operating income

	2013 £000	2012 £000
Sundry operating income	-	98
Gain on sale of operating lease assets	-	1,130
Gain on sale of joint ventures	2	-
	<u>2</u>	<u>1,228</u>

On 27 June 2013 the two joint ventures held by the company, Charta Leasing No 1 Limited and Charta Leasing No 2 Limited, were sold to a third party resulting in a gain on sale of £2,000.

NOTES TO THE FINANCIAL STATEMENTS

7 Other operating expenses

	2013 £000	2012 £000
Sundry operating expenses	1,167	-
Debt due from group companies waived	-	3,665
	<u>1,167</u>	<u>3,665</u>

In the prior 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

	2013 £000	2012 £000
Tax rate variation	4,939	3,145
	<u>4,939</u>	<u>3,145</u>

The reduction in the main rate of corporation tax from 23% to 21% and then to 20% 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

	2013 £000	2012 £000
Professional fees and other related expenses	143	169
	<u>143</u>	<u>169</u>

10 (Loss)/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 (2012: £8,500). The company has no employees and the directors received no remuneration in respect of their services to the company.

11 Taxation credit

	2013 £000	2012 £000
The taxation credit for the year comprises:		
Current tax receivable/(payable) on (loss)/profit for the year	2,743	(18,581)
Adjustment in respect of prior year	(6,293)	42,717
	<u>(3,550)</u>	<u>24,136</u>
Total current tax (payable)/receivable for the year	(3,550)	24,136
Deferred taxation (note 17)	2,640	14,576
Adjustment in respect of prior year (note 17)	-	(1)
Impact of tax rate change (note 17)	7,384	5,467
	<u>6,474</u>	<u>44,178</u>
Total taxation credit for the year	6,474	44,178

NOTES TO THE FINANCIAL STATEMENTS

11 Taxation credit (continued)

Where taxation on the company's (loss)/profit for the year differs from the taxation credit/(charge) that would arise using the standard rate of corporation tax of 23.25% (2012: 24.5%), the differences are explained below:

	2013 £000	2012 £000
(Loss)/profit before taxation	(22,718)	6,912
Tax at standard rate of corporation tax	5,282	(1,693)
Impact of tax rate change	7,384	5,467
Adjustment in respect of prior year	(6,293)	42,716
Disallowed and non-taxable items	101	(1,414)
Other items	-	(898)
Total taxation credit	6,474	44,178

12 Property, plant and equipment

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

	2013 £000	2012 £000
Original cost:		
At beginning of the year	-	90,673
Disposals during the year	-	(90,673)
At end of the year	-	-
Depreciation:		
At beginning of the year	-	(39,617)
Charge for the year	-	(3,597)
Disposals during the year	-	43,214
At end of the year	-	-
Initial direct costs:		
At beginning of the year	-	450
Charge for the year	-	(203)
Disposals during the year	-	(247)
At end of the year	-	-
Net book value at end of the year	-	-

In the prior year all three operating leases held by the company were sold to a third party, resulting in a gain on sale of £1,130,000 (note 6).

13 Investment in subsidiary undertakings

	2013 £000	2012 £000
At beginning of the year	147,076	147,076
At end of the year	147,076	147,076

NOTES TO THE FINANCIAL STATEMENTS

13 Investment in subsidiary undertakings (continued)

The subsidiary undertakings of the company for the year ended 31 December 2013 are listed below. All of which are registered in England and Wales, except Katrine Leasing Limited and Nevis Leasing Limited, which are registered in Jersey.

<u>Company name</u>	<u>Ownership & Voting (%)</u>	<u>Accounting reference date</u>	<u>Nature of business</u>
Barents Leasing Limited	100	31 March 2013	Cash management
Halifax Leasing (March No.2) Limited	100	31 March 2013	Leasing
Kanto Leasing Limited	100	31 March 2013	Cash management
Seadance Leasing Limited	100	31 March 2013	Investment
Seaspray Leasing Limited	100	31 March 2013	Leasing
Halifax Leasing (June) Limited	100	30 June 2013	Leasing
Ocean Leasing (July) Limited	100	31 July 2013	Leasing
Tranquillity Leasing Limited	100	22 August 2013	Cash management
Halifax Leasing (September) Limited	100	30 September 2013	Leasing
Ocean Leasing (No.1) Limited	100	30 September 2013	Investment
Ocean Leasing (No.2) Limited	100	30 September 2013	Leasing
Bank of Scotland LNG Leasing (No 1) Limited	100	31 December 2013	Leasing
BOS Aircraft Holdings Limited	100	31 December 2013	Investment
BOSSAF Rail Limited	100	31 December 2013	Leasing
Chariot Finance Limited	100	31 December 2013	Cash management
Katrine Leasing Limited	100	31 December 2013	Cash management
Nevis Leasing Limited	74	31 December 2013	Leasing
Nordic Leasing Limited	100	31 December 2013	Leasing
Oval Leasing Limited	100	31 December 2013	Leasing
Pacific Leasing Limited	100	31 December 2013	Leasing
Seabreeze Leasing Limited	100	31 December 2013	Cash management
Seaspirit Leasing Limited	100	31 December 2013	Leasing
Shibden Dale Limited	100	31 December 2013	Investment

14 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	2013	2012
	£000	£000	£000	£000
Amounts receivable under finance leases				
Within 1 year	24,577	23,404	16,975	10,355
2 - 5 years inclusive	222,510	99,248	187,915	33,220
After 5 years	170,592	383,591	107,429	280,879
	<u>417,679</u>	<u>506,243</u>	<u>312,319</u>	<u>324,454</u>
Less: Unearned finance income	(105,360)	(181,789)		
Present value of minimum lease payments receivable	<u>312,319</u>	<u>324,454</u>		
Analysed as:				
Non-current finance lease receivable	295,344	314,099		
Current finance lease receivables	16,975	10,355		
	<u>312,319</u>	<u>324,454</u>		

The fair value of the company's finance lease receivables at 31 December 2013 is estimated at £306,000,000 (2012: £316,000,000).

NOTES TO THE FINANCIAL STATEMENTS

15 Amounts owed by group companies

	2013 £000	Restated 2012 £000
Cash at bank	830	1,000
Bank deposits	256,893	326,847
Interest receivable	657	578
Amounts due from fellow subsidiary undertakings	95,439	140,887
Amounts due from parent undertaking	-	1,286
	<u>353,819</u>	<u>470,598</u>

For further details please refer to note 22.

16 Amounts owed to group companies

	2013 £000	Restated 2012 £000
Bank borrowings	495,922	613,967
Interest payable	7,169	7,635
Amounts due to fellow subsidiary undertakings	233,747	213,738
Amounts due to parent undertaking	5,563	-
Group relief payable	24,758	29,524
	<u>767,159</u>	<u>864,864</u>

For further details please refer to note 22.

17 Deferred taxation

	2013 £000	2012 £000
At beginning of the year	59,443	79,485
Deferred taxation credit for the year	(2,640)	(14,576)
Adjustment in respect of prior year	-	1
Impact of tax rate change	(7,384)	(5,467)
	<u>49,419</u>	<u>59,443</u>

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

	2013 £000	2012 £000
Impact of tax rate change	7,384	-
Capital allowances on assets leased to customers	2,640	20,042
	<u>10,024</u>	<u>20,042</u>

Total deferred taxation credit

NOTES TO THE FINANCIAL STATEMENTS

17 Deferred taxation (continued)

Deferred taxation liabilities are comprised as follows:

	2013 £000	2012 £000
Capital allowances on assets leased to customers	49,419	59,443
Total deferred taxation liabilities	49,419	59,443

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. In addition, The Finance Act 2013 was substantively enacted on 2 July 2013. The Act further reduces the rate of corporation tax from 23% to 21% with effect from 1 April 2014 and to 20% from 1 April 2015. The change in the main rate of corporation tax from 23% to 20% has resulted in a reduction in the company's net deferred tax liability at 31 December 2013 of £7,384,000, comprising a £7,384,000 credit included in the statement of comprehensive income.

18 Share capital

As permitted by the Companies Act 2006, the company removed references to authorised share capital from its articles of association.

	2013 £	2012 £
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 or downloaded via www.lloydsbankinggroup.com.

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 of which appear in the statement of changes in equity.

19 Retained earnings

	2013 £000	2012 £000
At beginning of the year	16,279	(34,811)
(Loss)/profit after tax and total comprehensive (loss)/income for the year	(16,244)	51,090
At end of the year	35	16,279

NOTES TO THE FINANCIAL STATEMENTS

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 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 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.

	2013 £000	2012 £000
Financial assets which are neither past due nor impaired for credit risk:		
Finance lease receivables	312,319	324,454
Amounts owed by group companies	353,819	470,598
Other debtors	3,399	8,312
Total credit risk exposure	669,537	803,364

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each lease 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. Credit ratings of the lease counterparties are monitored, where necessary revised, over the life of the lease. 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 2013							
Finance lease receivables	-	-	-	-	312,319	-	312,319
Amounts owed by group companies	-	-	353,819	-	-	-	353,819
Other debtors	-	-	-	-	-	3,399	3,399
Total	-	-	353,819	-	312,319	3,399	669,537

	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
At 31 December 2012							
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 2013 and 2012 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2013	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	271,237	271,237
Up to 1 month	-	-	-
1-3 months	144,839	-	144,839
3-12 months	265,103	-	265,103
1-5 years	85,980	-	85,980
Over 5 years	-	-	-
Total	495,922	271,237	767,159
At 31 December 2012 (as restated)	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	260,751	260,751
Up to 1 month	-	-	-
1-3 months	238,341	-	238,341
3-12 months	229,430	-	229,430
1-5 years	146,196	-	146,196
Over 5 years	-	-	-
Total	613,967	260,751	874,718

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:

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.

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income by and finance costs by £1,240,000 (2012: £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 have been immaterial.

NOTES TO THE FINANCIAL STATEMENTS

20 Risk management of financial instruments (continued)

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

	2013 \$000	2012 \$000
Financial assets		
Amounts owed by group companies	49,380	40,602
	<u>49,380</u>	<u>40,602</u>
Financial liabilities		
Other creditors	49,208	410,463
	<u>49,208</u>	<u>410,463</u>

21 Notes to the cash flow statement

	2013 £000	Restated 2012 £000
(Loss)/profit from operations	(22,718)	6,912
Add/(less) non cash items:		
Depreciation	-	3,800
Impairment charge	4,939	3,145
Foreign exchange movement	14,470	(9,683)
Gain on sale of operating leased assets	-	(1,130)
Gain on sale of joint ventures	(2)	-
	<u>(3,311)</u>	<u>3,044</u>
Operating cash flows before movements in working capital	(3,311)	3,044
Movement in receivables	58,745	510,552
Movement in payables	324	28,516
	<u>55,758</u>	<u>542,112</u>
Cash generated by operations	55,758	542,112
Group relief paid	(8,316)	(194)
	<u>47,442</u>	<u>541,918</u>
Net cash flow from operations	47,442	541,918

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:

NOTES TO THE FINANCIAL STATEMENTS

22 Related parties (continued)

Nature of transaction	Related party	2013 £000	Restated 2012 £000
Cash at bank	Fellow subsidiary undertaking	830	1,000
Bank deposits	Fellow subsidiary undertaking	256,893	326,847
Amounts due from fellow subsidiary undertakings	Fellow subsidiary undertaking	95,439	140,887
Amounts due from parent company	Immediate parent undertaking	-	1,286
Group relief payable	Fellow subsidiary undertaking	(24,758)	(29,524)
Amounts due to fellow subsidiary undertakings	Fellow subsidiary undertaking	(233,747)	(213,738)
Amounts payable to parent company	Fellow subsidiary undertaking	(5,563)	-
Bank borrowings	Fellow subsidiary undertaking	(495,922)	(613,967)
Interest payable	Fellow subsidiary undertaking	(7,169)	(7,635)
Interest receivable	Fellow subsidiary undertaking	657	578

Bank borrowings are interest bearing and during the year rates of interest of up to 5.34% (2012: 3.04%) were charged. Finance costs of £27,305,000 (2012: £30,853,000) were incurred during the year.

The company earned interest on bank deposits of £6,231,000 (2012: £10,018,000) on which rates of interest of up to 2.74% (2012: 2.74%) were received.

The company paid group relief of £8,316,000 (2012: £194,000) during the year to fellow subsidiary undertakings.

23 Contingent liability

The company 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. A number of Group companies, including the company, have an open matter in relation to a claim for group relief of losses incurred in a former Irish banking subsidiary of the Lloyds Banking Group, which ceased trading on 31 December 2010. In the second half of 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules, permitting the offset of such losses, denies these claims; if HMRC's position is found to be correct, management estimate that this would result in an increase in the company's current tax liability of approximately £34,308,000. The Lloyds Banking 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 on the company.

24 Future developments

The following accounting standard changes will impact the company in the future financial periods. 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>
Amendment to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'	Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement.	Annual periods beginning on or after 1 January 2014
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – 'Novation of Derivatives and Continuation of Hedge Accounting'	Provides relief from discontinuing hedge accounting in circumstances where a derivative designated as a hedging instrument is novated to a central counterparty as a consequence of introduction of laws or regulations.	Annual periods beginning on or after 1 January 2014
IFRS 9: 'Financial Instruments'	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities and hedge accounting. IFRS 9 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 instruments and eliminated the available-for-sale financial asset and held-to-maturity investment categories in IAS 39. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.	Annual periods beginning on or after 1 January 2018