

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

Annual report and financial statements for the year ended 31 December 2017

**COMPANIES HOUSE
EDINBURGH**

06 SEP 2018

FRONT DESK



Member of Lloyds Banking Group plc

Registered Number: 02279167

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

DIRECTORS

L F C Dorey
C G Dowsett
G A Fox

COMPANY SECRETARY

A E Mulholland

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 2017.

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.

The company has one finance lease with a net book value of £105,651,000. Finance lease income of £4,695,000 was received in the year.

The investment in subsidiary undertakings did not change materially during the year. Three of the company's subsidiary undertakings entered into liquidation, the carrying value of these companies was £127.

Dividend income of £151,000 was received from the company's subsidiary undertakings during the year. This is significantly less than the dividend income of £2,566,000 from the prior year and the company's profit has reduced accordingly.

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 15 '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: 31 August 2018

DIRECTORS' REPORT

The directors present their report and audited financial statements of the company for the year ended 31 December 2017.

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 £211,000 (2016: £2,189,000 profit) for the year as set out in the statement of comprehensive income on page 7.

The company has shareholder's equity of £58,785,000 (2016: £58,926,000).

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2016: £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
L F C Dorey	28 June 2016	-
A J Kemp	9 January 2017	28 June 2018

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

Date: 31 August 2018

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the statement of comprehensive income, the cash flow statement, the statement of changes shareholder's in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

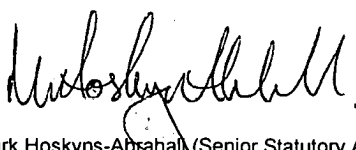
Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.



Mark Hoskyns-Abraham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
Date 31 August 2018

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Investment income	2	151	2,566
Finance income	3	5,525	8,057
Finance costs	4	<u>(5,802)</u>	<u>(7,978)</u>
		(126)	2,645
Impairment charge	5	-	(373)
Administration expenses	6	(39)	(47)
Foreign exchange loss		<u>(46)</u>	<u>(36)</u>
(Loss)/profit before taxation	7	(211)	2,189
Taxation credit	8	<u>70</u>	<u>1,222</u>
(Loss)/profit after taxation and total comprehensive (loss)/income for the year attributable to owners of the parent		<u><u>(141)</u></u>	<u><u>3,411</u></u>

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

BALANCE SHEET
As at 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Investment in subsidiary undertakings	9	3,610	3,610
Finance lease receivables	10	<u>105,651</u>	<u>106,576</u>
Total non-current assets		<u>109,261</u>	<u>110,186</u>
Current assets			
Finance lease receivables	10	-	-
Amounts owed by Group companies	11	186,387	225,820
Other debtors		<u>-</u>	<u>1</u>
Total current assets		<u>186,387</u>	<u>225,821</u>
Total assets		<u>295,648</u>	<u>336,007</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	12	<u>222,497</u>	<u>262,714</u>
Total current liabilities		<u>222,497</u>	<u>262,714</u>
Non-current liabilities			
Deferred taxation	13	<u>14,366</u>	<u>14,367</u>
Total non-current liabilities		<u>14,366</u>	<u>14,367</u>
Equity			
Share capital	14	-	-
Retained earnings		<u>58,785</u>	<u>58,926</u>
Total equity		<u>58,785</u>	<u>58,926</u>
Total liabilities and equity		<u>295,648</u>	<u>336,007</u>

The financial statements on pages 7 to 21 were approved by the Board of Directors on 31 August 2018 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 02279167

The accompanying notes on pages 11 to 21 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 2015		-	55,515	55,515
Total comprehensive income for the year				
Profit for the year		-	3,411	3,411
Balance at 31 December 2016	14	-	58,926	58,926
Total comprehensive loss for the year				
Loss for the year		-	(141)	(141)
Balance at 31 December 2017	14	-	<u>58,785</u>	<u>58,785</u>

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
(Loss)/profit before taxation		(211)	2,189
Add non-cash items:			
Impairment charge	5	-	373
Foreign exchange loss		<u>46</u>	<u>36</u>
Operating cash flows before movements in working capital		(165)	2,598
Decrease in receivables		34,694	61,247
Increase/(decrease) in payables		<u>72,217</u>	<u>(59,715)</u>
Cash generated by operations		106,746	4,130
Taxation received/(paid)		<u>74</u>	<u>(32,366)</u>
Net cash flow generated from/(used in) operating activities		<u>106,820</u>	<u>(28,236)</u>
Financing activities			
Decrease in bank borrowings		<u>(112,435)</u>	<u>(31,208)</u>
Net cash flow used in financing activities		<u>(112,435)</u>	<u>(31,208)</u>
Exchange gain on cash and cash equivalents		<u>15</u>	<u>267</u>
Decrease in cash and cash equivalents		(5,600)	(59,177)
Cash and cash equivalents at beginning of the year		<u>189,113</u>	<u>248,290</u>
Cash and cash equivalents at end of the year		<u><u>183,513</u></u>	<u><u>189,113</u></u>
Cash and cash equivalents are comprised of:			
Cash at bank	11	1,019	1,513
Bank deposits	11	<u>182,494</u>	<u>187,600</u>
		<u><u>183,513</u></u>	<u><u>189,113</u></u>

The accompanying notes on pages 11 to 21 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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(d) Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Investment income

	2017 £000	2016 £000
Dividend income	<u>151</u>	<u>2,566</u>
	<u>151</u>	<u>2,566</u>

Dividends of £59,000 (£59,000 per share), £56,000 (£28,000 per share) and £36,000 (£36,000 per share) were received during the year from subsidiary undertakings Ocean Leasing (No. 2) Limited, Ocean Leasing (July) Limited and Seaspray Leasing Limited respectively.

In the prior year, dividends of £1,295,000 (£657,500 per share), £1,096,000 (£1,096,000 per share), £108,000 (£1,080 per share), £34,000 (£34,000 per share) and £33,000 (£442.41 per share) were received during the year from subsidiary undertakings Ocean Leasing (July) Limited, Ocean Leasing (No. 2) Limited, Seadance Leasing Limited, Shiddendale Limited and Nevis Leasing Limited respectively.

3 Finance income

	2017 £000	2016 £000
Finance lease income	4,695	4,777
Interest receivable on bank deposits with other group companies	<u>830</u>	<u>3,280</u>
	<u>5,525</u>	<u>8,057</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

	2017 £000	2016 £000
Interest payable to other group companies	<u>5,802</u>	<u>7,978</u>
	<u>5,802</u>	<u>7,978</u>

5 Impairment charge

	2017 £000	2016 £000
Tax rate variation	<u>-</u>	<u>373</u>
	<u>-</u>	<u>373</u>

The reduction in the main rate of corporation tax from 20% to 17% is disclosed further in note 8.

The change in the rates of corporation tax gave 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 gave rise to a reduction in the interest rate implicit within the lease which when applied retrospectively, produced an impairment of the finance lease receivables in the prior year.

6 Administration expenses

	2017 £000	2016 £000
Professional fees and other related expenses	<u>39</u>	<u>47</u>
	<u>39</u>	<u>47</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 (Loss)/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 (2016: 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.

8 Taxation credit

	2017 £000	2016 £000
The taxation credit for the year comprises:		
Total current tax receivable for the year	69	74
Adjustments in respect of prior years	-	(544)
Deferred taxation (note 13)	1	1
Impact of tax rate change (note 13)	-	1,691
Total taxation credit for the year	<u>70</u>	<u>1,222</u>

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 19.25% (2016: 20.00%), the differences are explained below:

	2017 £000	2016 £000
(Loss)/profit before taxation	<u>(211)</u>	<u>2,189</u>
Tax at standard rate of corporation tax	41	(438)
Impact of tax rate change	-	1,691
Non-taxable items	29	513
Adjustment in respect of prior years	-	(544)
Total taxation credit	<u>70</u>	<u>1,222</u>

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016 further reduced the corporation tax rate to 17% with effect from 1 April 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Investment in subsidiary undertakings

	2017 £000	2016 £000
At beginning of the year	3,610	3,913
Disposals during the year	-	(303)
At end of the year	3,610	3,610

During the year, the company's subsidiary undertakings, Seadance Leasing Limited, Nevis Leasing Limited and Shibden Dale Limited were dissolved and the company's investment in subsidiary undertakings was reduced by the carrying value of £127.

During the prior year, on 29 September 2016, the company's subsidiary undertaking, BOS Aircraft Holdings Limited, was dissolved and the value of the company's investment in subsidiary undertakings was reduced by the carrying value of £303,000.

The subsidiary undertakings of the company for the year ended 31 December 2017, all of which are registered in England and Wales, except Katrine Leasing Limited, which is 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 2017	Cash management
Halifax Leasing (March No. 2) Limited *	100	Ordinary	31 March 2017	Leasing
Kanto Leasing Limited **	100	Ordinary	31 March 2017	In liquidation
Seaspray Leasing Limited **	100	Ordinary	31 March 2017	In liquidation
Halifax Leasing (June) Limited **	100	Ordinary	30 June 2017	In liquidation
Ocean Leasing July Limited **	100	Ordinary	31 July 2017	In liquidation
Tranquillity Leasing Limited *	100	Ordinary	22 August 2017	Cash management
Halifax Leasing (September) Limited *	100	Ordinary	30 September 2017	Cash management
Ocean Leasing (No. 1) Limited **	100	Ordinary	30 September 2017	In liquidation
Ocean Leasing (No. 2) Limited **	100	Ordinary	30 September 2017	In liquidation
Bank of Scotland LNG Leasing (No.1) Limited**	100	Ordinary	31 December 2017	In liquidation
BOSSAF Rail Limited *	100	Ordinary	31 December 2017	Cash management
Chariot Finance Limited **	100	Ordinary	31 December 2017	In liquidation
Katrine Leasing Limited ***	100	Ordinary	31 December 2017	Cash management
Nordic Leasing Limited *	100	Ordinary	31 December 2017	Leasing
Pacific Leasing Limited *	100	Ordinary	31 December 2017	Leasing
Seabreeze Leasing Limited *	100	Ordinary	31 December 2017	Cash management
Seaspirit Leasing Limited *	100	Ordinary	31 December 2017	Cash management

The registered offices of the subsidiary undertakings are as noted below:

Registered address

- * 25 Gresham Street, London, EC2V 7HN
- ** 1 More London Place, London, SE1 2AF
- *** 47 Esplanade, St. Helier, Jersey, JE1 0BD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts receivable under finance leases				
Within 1 year	6,417	6,138	-	-
2 - 5 years inclusive	36,981	35,220	10,407	7,620
After 5 years	<u>131,175</u>	<u>141,107</u>	<u>95,244</u>	<u>98,956</u>
	174,573	182,465	105,651	106,576
Less: Unearned finance income	<u>(68,922)</u>	<u>(75,889)</u>		
Present value of minimum lease payments receivable	<u>105,651</u>	<u>106,576</u>		
Analysed as:				
Non-current finance lease receivable	105,651	106,576		
Current finance lease receivables	<u>-</u>	<u>-</u>		
	<u>105,651</u>	<u>106,576</u>		

The fair value of the company's finance lease receivables at 31 December 2017 is estimated at £97,679,000 (2016: £97,013,000).

11 Amounts owed by group companies

	2017 £000	2016 £000
Cash at bank	1,019	1,513
Bank deposits	182,494	187,600
Interest receivable	104	154
Amounts due from fellow subsidiary undertakings	2,701	33,272
Amounts due from immediate parent undertaking	-	3,207
Tax receivable	<u>69</u>	<u>74</u>
	<u>186,387</u>	<u>225,820</u>

For further details please refer to note 16.

12 Amounts owed to group companies

	2017 £000	2016 £000
Bank borrowings	86,716	199,151
Interest payable	3,505	3,899
Amounts due to fellow subsidiary undertakings	116,855	45,617
Amounts due to parent undertakings	<u>15,421</u>	<u>14,047</u>
	<u>222,497</u>	<u>262,714</u>

For further details please refer to note 16.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Deferred taxation

	2017 £000	2016 £000
At beginning of the year	14,367	16,059
Deferred taxation credit for the year	(1)	(1)
Impact of tax rate change	-	(1,691)
At end of the year	<u>14,366</u>	<u>14,367</u>

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

	2017 £000	2016 £000
Capital allowances on assets leased to customers	(1)	(1)
Impact of tax rate change	-	(1,691)
Total deferred taxation credit	<u>(1)</u>	<u>(1,692)</u>

Deferred taxation liabilities are comprised as follows:

	2017 £000	2016 £000
Capital allowances on assets leased to customers	<u>14,366</u>	<u>14,367</u>
Total deferred taxation	<u>14,366</u>	<u>14,367</u>

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016 further reduced the corporation tax rate to 17% with effect from 1 April 2020.

14 Share capital

	2017 £	2016 £
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)

15 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.

	2017 £000	2016 £000
Financial assets which are neither past due nor impaired for credit risk:		
Finance lease receivables	105,651	106,576
Amounts owed by group companies	186,387	225,820
Other debtors	-	1
Total credit risk exposure	<u>292,038</u>	<u>332,397</u>

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 2017							
Finance lease receivables	-	-	-	105,651	-	-	105,651
Amounts owed by group companies	-	-	186,387	-	-	-	186,387
Total	-	-	186,387	105,651	-	-	292,038
	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
At 31 December 2016							
Finance lease receivables	-	-	-	106,576	-	-	106,576
Amounts owed by group companies	-	-	225,820	-	-	-	225,820
Other debtors	-	-	-	-	-	1	1
Total	-	-	225,820	106,576	-	1	332,397

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 2017 and 2016 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)

15 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 2017	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	132,276	132,276
Up to 1 month	1,122	1	1,123
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	85,594	3,504	89,098
Total	86,716	135,781	222,497
At 31 December 2016	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	59,664	59,664
Up to 1 month	112,942	395	113,337
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	86,209	3,504	89,713
Total	199,151	63,563	262,714

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 £456,000 (2016: £469,000) and finance costs by £217,000 (2016: £498,000).

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	2017 \$000	2016 \$000
Financial assets		
Amounts owed by group companies	501	501
	501	501

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 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	2017	2016	Terms and conditions	
			£000	£000	Repayment	Interest
Cash at bank	Bank of Scotland plc	Immediate parent undertaking	1,019	1,513	No fixed date	0%
Bank deposits	Bank of Scotland plc	Immediate parent undertaking	182,494	187,600	15/1/18–26/3/18	0.28%-0.63%
Amounts due from fellow subsidiary undertakings	Various	Fellow subsidiary undertakings	2,701	33,272	No fixed date	0%
Amounts due from immediate parent undertaking	Bank of Scotland plc	Immediate parent undertaking	-	3,207	No fixed date	0%
Tax receivable	Bank of Scotland plc	Immediate parent undertaking	69	74	No fixed date	0%
Amounts due to fellow subsidiary undertakings	Various	Fellow subsidiary undertakings	(116,855)	(45,617)	No fixed date	0%
Amounts due to parent company	Bank of Scotland plc	Immediate parent undertaking	(15,421)	(14,047)	No fixed date	0%
Bank borrowings	Bank of Scotland plc	Immediate parent undertaking	(86,716)	(199,151)	15/1/18–25/3/32	0.38%-5.34%
Interest payable	Bank of Scotland plc	Immediate parent undertaking	(3,505)	(3,899)	15/1/18–25/3/32	N/A
Interest receivable	Bank of Scotland plc	Immediate parent undertaking	104	154	15/1/18–26/3/18	N/A

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

Dividends of £151,000 (2016: £2,566,000) were received during the year from subsidiaries.

Bank borrowings are interest bearing and during the year rates of interest between 0.25% and 5.38% (2016: 0.25% and 5.38%) were charged. Finance costs of £5,802,000 (2016: £7,978,000) were incurred during the year.

The company earned interest on bank deposits of £829,000 (2016: £3,280,000) on which rates of interest between 0.15% and 0.63% (2016: 0.28% and 0.40%) were received.

The company received tax of £74,000 (2016: £32,366,000 paid) during the year from fellow subsidiary undertakings.

The registered offices of related parties are noted below:

<u>Related party</u>	<u>Registered address</u>
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ

17 Adopted accounting standards

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 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'	<p>IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods.</p> <p><i>Classification and measurement</i></p> <p>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 or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.</p> <p><i>Impairment</i></p> <p>IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.</p> <p>The full impact of this pronouncement is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.</p>	Annual periods beginning on or after 1 January 2018
IFRS16; 'Leases'	<p>The IASB has issued IFRS 16 to replace IAS 17 Leases which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. This change will mainly impact the properties that the Group currently accounts for as operating leases. Lessor accounting requirements remain aligned to the current approach under IAS 17.</p>	Annual periods beginning on or after 1 January 2019

19 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 £41,032,000 (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.