

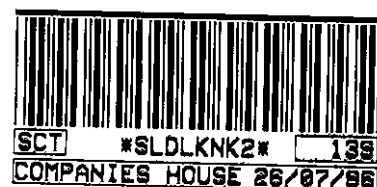
MELVILLE STREET LEASING  
(EDINBURGH) LIMITED

COMPANY NO. 59678

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31ST MARCH 1996

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MELVILLE STREET LEASING (EDINBURGH) LIMITED

DIRECTORS

ERIC F SANDERSON	(Chairman)
ALEXANDER D NICOL	(Managing Director)
JOHN McCABE	(Assistant Managing Director)

SECRETARY

JOHN W ROBERTSON

REGISTERED OFFICE

4 MELVILLE STREET  
EDINBURGH  
EH3 7NZ  
Telephone: 0131-453-1919

AUDITORS

ERNST & YOUNG  
Chartered Accountants  
Ten George Street  
Edinburgh

PARENT UNDERTAKING

CAPITAL LEASING LIMITED

# MELVILLE STREET LEASING (EDINBURGH) LIMITED

## DIRECTOR'S REPORT 1996

The Directors submit this report and accounts of Melville Street Leasing (Edinburgh) Limited for the year ended 31 March 1996.

## RESULTS AND DIVIDEND

The profit of the Company for the year to 31 March 1996 before taxation amounted to £2,587,713. After a tax charge of £503,084 and a payment of an interim dividend of £2,100,000, a retained loss of £15,371 remains to be carried forward.

The Directors do not recommend the payment of a final dividend.

## REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company's principal business is the provision of leasing and asset based finance for capital projects and the Company intends to continue to develop leasing packages to meet the specialised requirements of lessees.

The cost of equipment acquired for letting under finance leases was £3,639,630 in what has been a satisfactory year for the Company.

## SHARE CAPITAL

The authorised share capital of the Company throughout the year was £100.

## DIRECTORS AND THEIR INTERESTS

No Director has an interest in the shares of the Company, nor in the Preference Stocks of The Governor and Company of the Bank of Scotland ("Bank of Scotland"), the Company's ultimate parent undertaking, nor in the shares of any other group undertaking, at any time during the year.

Directors' beneficial interests in the ordinary stock of Bank of Scotland, the ultimate holding undertaking, were as follows:-

	<u>At 31 March 1995</u> <u>Ordinary Stock Units</u> <u>of 25p each</u>	<u>At 31 March 1996</u> <u>Ordinary Stock Units</u> <u>of 25p each</u>
E F Sanderson	143,626	138,425
A D Nicol	110,862	114,939
J McCabe	45,613	44,562

# MELVILLE STREET LEASING (EDINBURGH) LIMITED

## DIRECTOR'S REPORT (Continued)

Options to subscribe for Ordinary Stock of the Bank of Scotland were granted to or exercised by Directors during the year to 31 March 1996 as follows:-

### EXECUTIVE STOCK OPTIONS

	<u>At 31.03.95</u>	<u>GRANTED</u>	<u>EXERCISED</u>	<u>At 31.03.96</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE (P)</u>	<u>MARKET PRICE AT DATE OF EXERCISE (P)</u>	<u>CLOSING WEIGHTED AVERAGE EXERCISE PRICE (P)</u>	<u>DATE OPTIONS EXERCISABLE</u>
E F Sanderson	160,000	48,000	-	208,000	-	-	189.88	1996-2005
A D Nicol	138,000	28,500	-	166,500	-	-	174.15	1996-2005
J McCabe	60,580	9,000	-	69,580	-	-	150.97	1996-2005

No options lapsed during the period. Options were granted during the period at a price of 259.83p per ordinary share unit, being the average market price for the first three dealing days on which the original stock was quoted ex dividend following announcement of Bank of Scotland's results and immediately prior to the date of grant. For earlier years, options were granted at the average market price for the three dealing days immediately prior to the date on which invitations to apply for options were issued.

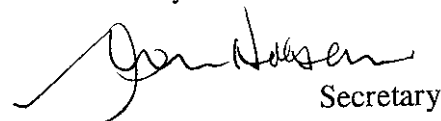
### SAVINGS RELATED STOCK OPTIONS

	<u>At 31.03.95</u>	<u>GRANTED</u>	<u>EXERCISED</u>	<u>At 31.03.96</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE (P)</u>	<u>MARKET PRICE AT DATE OF EXERCISE (P)</u>	<u>CLOSING WEIGHTED AVERAGE EXERCISE PRICE (P)</u>	<u>DATE OPTIONS EXERCISABLE</u>
A D Nicol	3,509	2,985	-	6,494	-	-	183.96	1999-2000
J McCabe	9,301	1,016	1,357	8,960	61.75	255	127.70	1996-2002

No options lapsed during the period. Options were granted in November 1995 at a price of 207.864p per ordinary stock unit being 80% of the average market price for the first three dealing days on which the ordinary stock was quoted ex dividend following announcement of the Bank of Scotland's results and immediately prior to the date of grant. For earlier years, options were granted at 80% of the market price on the fourth dealing day after the announcement of the interim results.

The market price of the shares at 31 March 1996 was 238.5p per ordinary stock unit and the range during the year was 205.5p to 316.0p per ordinary stock unit.

By order of the Board

  
Secretary

4 Melville Street  
Edinburgh  
EH3 7NZ  
9 July 1996

**MELVILLE STREET LEASING (EDINBURGH) LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for the year. The Directors consider that in preparing the financial statements on pages 6 to 12 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider applicable have been followed.

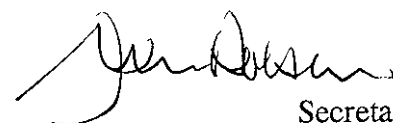
The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for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

The Directors are satisfied that it is appropriate for these accounts to have been prepared on a going concern basis.

The Directors acknowledge their responsibility for the system of internal financial control, the effectiveness of which they regularly review. These controls are designed to provide reasonable assurance on the accuracy and reliability of the information systems and on the maintenance of proper control over the assets and liabilities of the Group. They are based on the principles of tiered levels of authority for credit approvals and for capital and revenue expenditure.

Detailed procedures include budgeting and reporting systems, the appropriate supervision of which is supplemented by periodic internal audits and inspections.

By order of the Board

  
Secretary

4 Melville Street  
Edinburgh  
EH3 7NZ  
9 July 1996

**MELVILLE STREET LEASING (EDINBURGH) LIMITED**

**REPORT OF THE AUDITORS TO THE MEMBERS OF MELVILLE STREET LEASING (EDINBURGH) LIMITED**

We have audited the accounts on pages 6 to 12 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

**Respective responsibilities of directors and auditors**

As described on page 4, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 March 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG

Ernst & Young  
Chartered Accountants  
Registered Auditor  
Edinburgh  
9 July 1996

**MELVILLE STREET LEASING (EDINBURGH) LIMITED****Profit and Loss Account  
for the year ended 31 March 1996**

	£	1995 £
<b>Gross Earnings</b>	4,626,864	2,825,933
<b>Interest Payable to Other Group Undertakings</b>	2,038,389	1,604,015
	<hr/>	<hr/>
	2,588,475	1,221,918
<b>Administrative Expenses</b>	762	1,562
	<hr/>	<hr/>
<b>Profit on Ordinary Activities Before Taxation (Note 2)</b>	2,587,713	1,220,356
<b>Taxation on Profit on Ordinary Activities (Note 3)</b>	503,084	307,121
	<hr/>	<hr/>
<b>Profit on Ordinary Activities After Taxation (Note 12)</b>	2,084,629	913,235
<b>Interim Dividend Payable on Equity Shares (Note 8)</b>	2,100,000	900,000
	<hr/>	<hr/>
<b>(Loss)/Profit Retained for Year (Note 12)</b>	(15,371)	13,235
	<hr/>	<hr/>

Profit on ordinary activities before taxation arises from continuing operations.

There are no recognised gains or losses other than profits attributable to the shareholders of the Company in the year to 31 March 1996 of £2,084,629 (1995 - £913,235).

The notes on pages 8 to 12 form part of these accounts.

# MELVILLE STREET LEASING (EDINBURGH) LIMITED

**Balance Sheet**  
as at 31 March 1996

**Fixed Assets**  
Tangible Assets:  
(Note 4)

**Current Assets**

Finance Lease Receivables Falling Due:

Amounts Falling due:

After More than One Year (Note 5)	25,934,939
Within One Year (Note 5)	4,944,745
Amount due from Other Group Undertaking Debtors (Note 6)	1,940,000
	1,479,927
	<u>34,299,611</u>

1995  
£

£

-

-

35,629,743

4,389,861

-

2,203,365

42,222,969

**Creditors: Amounts Falling Due Within One Year**

Loans from British Linen Bank Group Undertaking Creditors (Note 7)	20,872,200
Due to Other Group Undertaking	6,376,275
Dividend Payable (Note 8)	-
	2,100,000
	<u>29,348,475</u>

22,347,711

5,673,620

8,960,000

900,000

37,881,331

**Net Current Assets**

4,951,136

4,341,638

**Total Assets less Current Liabilities**

4,951,136

4,341,638

**Provision for Liabilities and Charges**  
Deferred Taxation (Note 9)

3,558,257

2,933,388

1,392,879

1,408,250

**Subordinated Loan Stock (Note 10)**

65,000

65,000

**Capital and Reserves**

Called Up Share Capital (Note 11)  
Profit and Loss Account (Note 12)

100

100

1,327,779

1,343,150

1,392,879

1,408,250

Managing Director  
Assistant Managing Director

The notes on pages 8 to 12 form part of these accounts.



# MELVILLE STREET LEASING (EDINBURGH) LIMITED

## Notes on the Accounts for the year ended 31 March 1996

### 1. Accounting Policies

#### (a) Basis of Preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

#### (b) Finance Leases

Income from assets leased to customers, including the release of government grants and leasing earnings equalisation provisions, is determined by spreading interest and charges over the period of repayment in proportion to the net cash investment.

Adjustments are made to equalise the effects of changes in corporation tax rates and are included in revenue, grossed up at the prevailing corporation tax rate, over the anticipated lives of the leases affected.

#### (c) Depreciation

Equipment is written off in equal instalments over the expected lives of the assets, up to a maximum of 5 years.

#### (d) Bad and Doubtful Debts

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

Finance Lease Receivables are stated net of specific and general provisions in the Balance Sheet.

#### (e) Deferred Taxation

The charge for taxation takes into account the timing differences in the accounting and taxation treatment of certain items to the extent that they are expected to reverse in the future. Deferred taxation is provided on the liability method.

# MELVILLE STREET LEASING (EDINBURGH) LIMITED

## Notes on the Accounts for the year ended 31 March 1996 (Continued)

### 2. Operating Profit

The Company operates in one principal area of activity, that of the provision of leasing and asset based finance. It operates wholly within the United Kingdom.

The operating profit of £2,587,713 (1995 - £1,220,356) is stated after crediting lease rentals receivable and proceeds on sale of leased equipment, totalling £8,938,677 (1995 - £7,398,517) and charging:

	£	1995 £
Auditors' Remuneration - Audit	750	750
Directors' Emoluments	-	-
Depreciation of Equipment	—	<u>914</u>

### 3. Taxation on Profit on Ordinary Activities

The taxation charge is made up as follows:

	£	1995 £
Group Relief/Corporation Tax at 33 % (1995 - 33 %)	(109,159)	(382,765)
Deferred Taxation	671,534	542,472
Equalisation Provisions	(37,660)	147,896
	<u>524,715</u>	<u>307,603</u>
Prior Year Amendments to: Group Relief/Corporation Tax	25,034	(684)
Deferred Taxation	(46,665)	202
Tax Charge for Year	<u>503,084</u>	<u>307,121</u>

The effective tax rate for the year differs from the standard rate of UK corporation tax as a result of the tax equalisation impact of property leases.

# MELVILLE STREET LEASING (EDINBURGH) LIMITED

## Notes on the Accounts for the year ended 31 March 1996 (Continued)

4.	<b>Tangible Assets</b>	£
	Cost:-	
	At 1 April 1995 and 31 March 1996	4,568
		<hr/>
	Depreciation:-	
	At 1 April 1995 and 31 March 1996	4,568
		<hr/>
	Net Book Value at 1 April 1995 and 31 March 1996	-
		<hr/>

5.	<b>Finance Lease Receivables</b>	£	1995 £
	Rentals Receivable for Leased Equipment (Net of Provisions)	39,727,841	67,964,095
	Less Income Allocated to Future Periods	8,848,157	27,944,491
		<hr/>	<hr/>
		30,879,684	40,019,604
		<hr/>	<hr/>

The cost of equipment acquired for letting under finance leases was £3,639,630 (1995 - £8,224,101).

Included in finance lease receivables is £13,058,619 (1995 - £14,248,140) due to the Company from other Bank of Scotland Group Undertakings of which £2,954,600 (1995 - £2,794,148) is receivable within one year.

6.	<b>Debtors</b>	£	1995 £
	Trade Debtors	1,365,040	1,202,711
	Group Relief Receivable	114,887	386,270
	Taxes Recoverable	-	614,384
		<hr/>	<hr/>
		1,479,927	2,203,365
		<hr/>	<hr/>

# MELVILLE STREET LEASING (EDINBURGH) LIMITED

## Notes on the Accounts for the year ended 31 March 1996 (Continued)

### 7. Creditors

	£	1995 £
Trade Creditors	4,703,554	5,636,246
Amount due to British Linen Bank Group Undertaking	49,491	36,624
Other Creditors	744	750
Taxes Payable	1,622,486	-
	<hr/>	<hr/>
	6,376,275	5,673,620
	<hr/>	<hr/>

### 8. Dividend Payable

An interim dividend of £2,100,000 will be paid.

### 9. Deferred Taxation

The Directors consider it prudent to retain provisions as follows:

	Provided £	Potential Liability £	1995 Provided £	Potential Liability £
Short term timing differences	(1,461)	(1,461)	(39,820)	(39,820)
	<hr/>	<hr/>	<hr/>	<hr/>
Capital Allowances on Fixed Assets	(201)	(201)	(268)	(268)
	<hr/>	<hr/>	<hr/>	<hr/>
Capital Allowances on Leased Equipment	3,559,919	4,746,559	2,973,476	3,964,635
	<hr/>	<hr/>	<hr/>	<hr/>
Total	3,558,257	4,744,897	2,933,388	3,924,547
	<hr/>	<hr/>	<hr/>	<hr/>

British Linen Bank Group Limited has given a guarantee to pay on demand sufficient funds to enable the Company to meet any liability for deferred taxation for which no provision has been made which crystallises and becomes payable.

# MELVILLE STREET LEASING (EDINBURGH) LIMITED

## Notes on the Accounts for the year ended 31 March 1996 (Continued)

### 10. Subordinated Loan Stock

This loan will be repayable on 27 April 1998.

### 11. Share Capital

	£	1995 £
Authorised, Allotted, Issued and Fully Paid Ordinary Shares of £1 each	100	100

### 12. Reconciliation of Shareholders' Funds and Movements on Reserves

	Share Capital £	Profit & Loss Account £	Total £
At 1 April 1994	100	1,329,915	1,330,015
Profit for the Year	-	913,235	913,235
Dividend	-	(900,000)	(900,000)
At 31 March 1995	100	1,343,150	1,343,250
Profit for the Year	-	2,084,629	2,084,629
Dividend	-	(2,100,000)	(2,100,000)
At 31 March 1996	100	1,327,779	1,327,879

Shareholders' funds are entirely attributable to equity interests.

### 13. Ultimate Parent Company

The parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member is the Governor and Company of the Bank of Scotland, constituted by Act of the Scots Parliament in 1695. Copies of the Annual Report and Accounts of the ultimate parent undertaking can be obtained from its Head Office at The Mound, Edinburgh.

The parent undertaking in whose accounts the company is first consolidated is Capital Leasing Limited, registered in Scotland. Copies of Capital Leasing Limited's accounts can be obtained from its Head Office, 4 Melville Street, Edinburgh.

### 14. Approval of Accounts

The accounts were approved by the directors on 9 July 1996.