



BANK OF SCOTLAND
Foundation

(Formerly known as HBOS Foundation)

Annual Report and Accounts
31 December 2010

A Company Limited by Guarantee Registered in Scotland Number SC229825
Scottish Charity Number SC032942

Annual Report and Accounts 2010

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Review of 2010 by the Chair

During 2009 and early 2010, the activities of Bank of Scotland Foundation (then named HBOS Foundation) were replaced by similar programmes administered by most of the Lloyds TSB Foundations.

Since then, following a review of Lloyds Banking Group's long-term community investment strategy in Scotland, 2010 has been a year of significant change for the Foundation.

Funded by Lloyds Banking Group, the Foundation was re-established in August 2010 to work with charities across Scotland supporting projects with a particular focus on developing and improving Scottish communities and promoting financial literacy and financial inclusion.

I was delighted to be appointed Chair of the Foundation and in these uncertain times, feel privileged to have secured a sustained, long term income stream from our funding agreement with Lloyds Banking Group.

The £1m annual donation from Lloyds Banking Group funds the Foundation's Small Grants programme and Staff Matched Giving Scheme. When, in due course, Bank of Scotland Foundation becomes the Group's sole community investment vehicle in Scotland, Bank of Scotland Foundation's funding will increase enabling the Foundation to support even more charities across Scotland.

I have been delighted with the response to the Small Grants Scheme and Matched Giving Scheme so far and have appreciated the support the Group has provided in 2010 to deliver these programmes.

I would like to thank the Trustees for their commitment and enthusiasm and the team for their hard work in supporting disadvantaged people living on the margins of society within Scotland.

I look forward to continuing our work in 2011.



Kate Guthrie
Chair

Trustees Report

Reference and Administrative Information

Trustees: Kate Guthrie (Chair) (appointed 13 December 2010)
Jim Coyle (appointed 1 June 2010)
Sarah Deas (appointed 1 July 2011)
Alasdair Gardner (appointed 13 December 2010)
Paul Grice (appointed 8 August 2011)
Peter Navin (appointed 13 December 2010)
John Van Der Wielen (resigned 31 May 2010)
Paul Duffin (resigned 23 March 2011)
Ian Lovett (resigned 25 June 2010)
Dominic Morris (appointed 1 June 2010 & resigned 13 December 2010)
David Sole (resigned 13 June 2010)
Anne Shiels (resigned 31 October 2010)
Tom Woolgrove (resigned 9 April 2010)

Company Secretary: Lysanne Black (appointed 13 December 2010)
Sally Mayer (resigned 13 December 2010)

Bankers: Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Legal Advisors: Tods Murray LLP
Edinburgh Quay
133 Fountainbridge
Edinburgh
EH3 9AG

Auditors: KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Registered Office: The Mound
Edinburgh
EH1 1YZ

Registered Company No: SC229825 (Company limited by guarantee)

Scottish Charity No: SC032942

Structure, Governance and Management

Incorporation

On 6 August 2010 the Foundation changed its name from HBOS Foundation to Bank of Scotland Foundation.

The Foundation was incorporated in Scotland on 2 April 2002 as a company limited by guarantee and is registered as a charity. It was originally established by HBOS plc to provide a focus for its charitable donations and to act as a focal point for the group's community investment activities.

Following the acquisition of HBOS plc by Lloyds TSB plc the charity is now the focal point of charitable donations within Scotland of Lloyds Banking Group plc.

The purposes for which the Foundation has been established are laid out in a Charter which specifies two priorities namely –financial literacy and financial inclusion and developing and improving communities.

Organisation

Bank of Scotland Foundation is governed by a Board of Trustees, with Kate Guthrie as Chair. The day to day operations of the Bank of Scotland Foundation are delegated to Jillian Baillie, Head of the Bank of Scotland Foundation and her team. The Head of Bank of Scotland Foundation reports to Paul Turner, Group Community Investment Director who reports into the Chief Executive of Lloyds Banking Group.

The Trustees meet quarterly. Meetings are chaired by Kate Guthrie and are formally minuted. At each meeting of the Foundation, the Trustees determine overall policy, review agree all donations made in the previous quarter, note financial reports, review the budget position and decide on all grants which are submitted for approval. All decisions taken by the Trustees are in compliance with the Foundation Charter.

The Trustees have an agreed Investment Policy and Reserves Policy.

Trustees

The Trustees who served during the year are listed on page 4. Each Trustee who served during the year is an employee of Lloyds Banking Group plc. There have been two non-Lloyds Banking Group trustees added to the Board post year end.

The Trustees may appoint a Trustee provided that such person has first been recommended for appointment in accordance with the Trustee Appointment Policy. Trustees may only hold office for a maximum period of six years though in exceptional circumstances may be re-appointed for a second term of three years. Trustees appointed to the Foundation are Members of the company.

New trustees are given induction training and regular updates are provided to all trustees on all matters relating to their role as trustees.

There is no maximum to the number of Trustees, but the minimum is three. Trustees may be paid expenses but may not be remunerated.

Risk Policy

The Trustees have examined the major strategic, business and operational risks which the charity faces and confirm that systems have been established to enable regular reports to be produced so that the necessary steps can be taken to lessen these risks.

The Trustees will regularly review the governance and activities of the Foundation to ensure any risks are identified and that actions can be implemented to mitigate the risks in early course.

Objectives and Activities

The Foundation's policy is to make awards of grants in accordance with its charitable objectives:

- financial literacy and financial inclusion; and
- developing and improving communities

The Foundation meets these objectives through grant making to various organisations.

Achievements and Performance

In January 2010, the ongoing administration, support and financing of the remaining HBOS Foundation multi-year large grant charities was transferred to the Lloyds TSB Foundation for England and Wales. Funds amounting to £392k were transferred to meet these outstanding obligations.

In August 2010, the Foundation changed its name to Bank of Scotland Foundation and was established to provide Small Grants and Matched Giving for Lloyds Banking Group colleagues. The Foundation is funded by Lloyds Banking Group plc.

During 2010, Bank of Scotland Foundation Small Grants Programme provided a total of £50,000 to three charities in Scotland – Citizens Advice Edinburgh (£25,000), National Autistic Society Scotland (£15,000) and Interest Link Borders (£10,000).

In addition, Bank of Scotland Foundation established a Matched Giving programme to support the fundraising and volunteering efforts of Lloyds Banking Group colleagues across Scotland.

Funding and Investment

Bank of Scotland Foundation is a registered charity and is funded by Lloyds Banking Group plc.

The Foundation's funds are directed towards charitable donations with all its administrative costs borne by Lloyds Banking Group plc. In meeting its commitment to the Foundation, the Company provides:

- All staff costs plus related office and administration overheads.
- Considerable support from Group Corporate Affairs on the marketing and promotion of activities.

Financial Review

The Foundation received a donation of £1,000,000 from Lloyds Banking Group. In November 2010, £50,000 was awarded to charities within Scotland to mark the launch of the Foundation.

The Trustees believe this performance to be reasonable.

Investment Policy

The Trustees adopt an investment policy that is prudent, cautious and practical. In general, Trustees are under a duty to obtain the best investment performance without undue risk to the investment funds. For Bank of Scotland Foundation, the key requirements are:

Liquidity - there is a need to have funds available to distribute to the charitable projects agreed by the Trustees in accordance with project timetables.

Convenient and Efficient Services - prompt and accurate advice and information about the account and its management is required.

Risk Aversion - the purpose of the Foundation is to contribute to charitable projects that meet the necessary investment criteria. The Foundation should neither generate income nor save funds. It would be inappropriate therefore to seek to invest money for capital growth or to adopt any strategy that would attract risk or impact adversely on the ability of the Trustees to achieve its objectives.

Reserves Policy

It is the policy of the Foundation to maximise charitable giving whilst maintaining unrestricted funds at such a level to allow the charity to fulfil its existing obligations.

As at 31 December 2010 Bank of Scotland Foundation held £945,000 in unrestricted funds reserves (equal to total free reserves).

The Foundation aims to hold free reserves to cover two to three months running costs at any one time. The current reserves will be used to fund future donations in line with the Foundation's charitable objectives such that free reserves do not drop below £50,000.

Plans for Future Periods

The Foundation plans to continue to award grants to charities within Scotland through the Small Grants Programme and provide Matched Giving to charities supported by Lloyds Banking Group colleagues..

Disclosure to Trustees

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Disclosure of information to auditors

The Trustees who held office at the date of approval of this Trustees' report confirm that, so far as they are each aware, there is no relevant audit information of which the Foundation's auditors are unaware; and each Trustee has taken all the steps that he/she ought to have taken as a Trustee to make himself/herself aware of any relevant audit information and to establish that the Foundation's auditors are aware of that information.

On behalf of the trustees



Kate Guthrie
Chair
Bank of Scotland Foundation
29 September 2011

Statement of Trustees' responsibilities in respect of the Trustees' Report and the financial statements

The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the trustees to prepare financial statements for each financial year. Under that law they have are required to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the trustees 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 charitable company and of the excess of income over expenditure for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 charitable company will continue its activities.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charitable company and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the trustees and members of Bank of Scotland Foundation

We have audited the financial statements of Bank of Scotland Foundation for the year ended 31 December 2010 set out on pages 13 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and to the charity's trustees, as a body, in accordance with section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006. Our audit work has been undertaken so that we might state to the members and the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity, its members as a body and its trustees as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 10, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 December 2010 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the trustees and members of Bank of Scotland Foundation (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) require us to report to you if in our opinion:

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

Malcolm C Harding

Malcolm C Harding (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

29 September 2011

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Audited Accounts

STATEMENT OF FINANCIAL ACTIVITIES (Incorporating an Income & Expenditure Account)

For the year ended 31 December 2010

	Note	Unrestricted Funds 2010 £	Total 2010 £	Total 2009 £
Incoming Resources				
Incoming resources from generated funds				
Voluntary Income		1,000,148	1,000,148	1,301,899
Intangible Income	2.4	64,628	64,628	773,826
Investment Income		-	-	6,681
Total incoming resources		<u>1,064,776</u>	<u>1,064,776</u>	<u>2,082,406</u>
Resources expended				
Charitable Activities	3	65,852	65,852	3,979,470
Governance Costs	4	64,042	64,042	208,878
Transfer of Assets	5	-	-	1,039,450
Total resources expended		<u>129,894</u>	<u>129,894</u>	<u>5,227,798</u>
Net movement in funds		<u>934,882</u>	<u>934,882</u>	<u>(3,145,392)</u>
Fund balance brought forward		10,118	10,118	3,155,510
Fund balance carried forward		<u><u>945,000</u></u>	<u><u>945,000</u></u>	<u><u>10,118</u></u>

There were no recognised gains and losses other than those disclosed above. There is no difference between the net expenditure for the financial year and the historical cost equivalent.

All activities are derived from continuing operations.

The notes on pages 16 to 19 form part of these accounts

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BALANCE SHEET

As at 31 December 2010

	Note	2010 £	2009 £
Current Assets			
Debtors	6	965,000	-
Cash at Bank		-	401,954
TOTAL ASSETS		<u>965,000</u>	<u>401,954</u>
Current Liabilities			
Donations awarded and payable		(15,000)	(391,836)
Other Liabilities		(5,000)	-
		<u>(20,000)</u>	<u>(391,836)</u>
NET CURRENT ASSETS		945,000	10,118
NET ASSETS		<u>945,000</u>	<u>10,118</u>
Representing			
General Fund		945,000	10,118
Designated Fund		-	-
		<u>945,000</u>	<u>10,118</u>

The accounts were approved by the Trustees on 29 September 2011 and signed on their behalf by:



Kate Guthrie, Chair of Bank of Scotland Foundation



Alasdair Gardner, Trustee of Bank of Scotland Foundation

A Company Limited by Guarantee Registered in Scotland Number SC229825

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CASH FLOW STATEMENT

For the year ended 31 December 2010

	2010	2009
	£	£
Reconciliation of net incoming resources to net cash flow from operating activities		
Net incoming resources	934,882	(3,145,392)
Interest receivable	-	(6,681)
(Increase)/Decrease in current assets	(965,000)	814,558
Decrease in current liabilities	(371,836)	(4,152,629)
Net cash outflow from operating activities	(401,954)	(6,490,144)
Net cash outflow from operating activities	(401,954)	(6,490,144)
Return on investment and servicing of finance		
Interest received	-	6,681
Decrease in cash	(401,954)	(6,483,463)
	2010	2009
Reconciliation of net cash flow to movements in net funds		
Decrease in cash in year	(401,954)	(6,483,463)
Net funds at 1 January	401,954	6,885,417
Net funds at 31 December	-	401,954

Notes to the accounts

1. Guarantee company

The Foundation is a charitable company limited by guarantee and does not have any share capital. The liability of the members is limited by the Memorandum of Association to £1 each. At 31 December 2010 there were four Trustees each of whom was also a Director and member.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

2.1 Basis of preparation

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards, the Statement of Recommended Practice, Accounting and Reporting by Charities, issued in February 2005, and the Companies Act 2006. Accordingly, the arrangements and headings have been adapted as provided for in the Companies Act 2006.

The Trustees have considered 2011 and beyond and based on discussions with Lloyds Banking Group who provide funding to the Foundation and administrative support services, the Trustees have prepared the accounts on a going concern basis.

2.2 Fund accounting

Unrestricted funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the Foundation and which have not been designated for any other purpose.

Restricted funds are expended at the discretion of the Trustees in furtherance of a particular aspect of the Foundations' objectives. Such funds are subject to specific conditions to which the Foundation is required to adhere, while still promoting the wider objectives of the Foundation.

2.3 Income

Bank of Scotland Foundation derives its revenue from donations from Lloyds Banking Group plc which is recognised when the Foundation becomes entitled to the donation. Interest income arising on cash balances is recognised when receivable.

Notes to the accounts (continued)

2.4 Intangible Income

All costs incurred by the Foundation, including staff costs, are paid by Lloyds Banking Group plc. Where this expenditure is readily quantifiable, it is recognised as income to, and expenditure of, the Foundation. A split of intangible income/expenditure is detailed in the table below.

	Intangible Income/Expenditure		Total 2010	Total 2009
	Staff Costs	Office Costs		
	£	£	£	£
Developing & Improving Local Communities	7,299	988	8,287	457,733
Money Advice	4,866	786	5,652	200,016
Corporate Governance	44,015	6,674	50,689	116,077
	<u>56,180</u>	<u>8,448</u>	<u>64,628</u>	<u>773,826</u>

*** Staff costs**

	£
Salaries	42,526
Social security costs	3,431
Pensions	9,988
Restructuring costs	-
Other staff costs	<u>235</u>
Total	<u>56,180</u>

2.5 Resources expended

Charitable activities include grants payable which are charged in the year when the offer is conveyed and a valid expectation created with the recipient that the grant will be paid. Where the grant is conditional, such grant will not be recognised as expenditure until the conditions attached are fulfilled. Grants offered subject to conditions which have not been met at the year end are noted as a commitment, but not accrued as expenditure.

Other expenditure included within charitable activities are shown in Note 3.

Governance costs comprise the audit fee, legal fees and staff costs associated with the strategic management of the charity. This is shown in Note 4.

2.6 Taxation

Bank of Scotland Foundation is recognised as a charity. As a result the charity is exempt from taxation on its charitable activities.

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Notes to the accounts (continued)

3. Charitable Activities

	Grants Payable £	Staff Volunteering £	Matched Funding £	Support Costs £	Total 2010 £	Total 2009 £
Developing and improving local communities	26,913	-	-	8,287	35,200	2,536,031
Money advice and financial literacy	25,000	-	-	5,652	30,652	1,436,986
	<u>51,913</u>	<u>-</u>	<u>-</u>	<u>13,939</u>	<u>65,852</u>	<u>3,973,017</u>

During 2010 the Foundation made 3 grants to developing and improving local communities ranging from £1,913 to £15,000 and 1 grant to money advice and financial literacy causes for £25,000.

Support costs primarily include other staff costs. Staff costs relate to employees of Lloyds Banking Group plc who carried out certain administrative duties of the Foundation during the year.

The Foundation did not have any employees during the year.

4. Governance Costs

	2010 £	2009 £
Staff Costs	44,015	116,077
Administration Costs	3,031	-
Audit remuneration:		
- audit of these financial statements	5,000	9,200
- review of management accounts	-	15,640
Legal Fees	11,996	67,961
	<u>64,042</u>	<u>208,878</u>

Notes to the accounts (continued)

5. Trustees' expenses

No Trustees received remuneration, travel or accommodation expenses during the year from Bank of Scotland Foundation.

6. Debtors

	2010 £	2009 £
Debtors due within one year	965,000	-
	965,000	-

As the Foundation was in the process of setting up a bank account at 31 December 2010, the donation from Lloyds Banking Group was held by the bank, net of donations paid on behalf of the Foundation.

7. Related party transactions

During the year to 31 December 2010 donations of £1,000,000 were received from Lloyds Banking Group plc. At the year end £965,000 remained outstanding and has been recognised as a debtor in the accounts. The balance was paid to the Foundation in May 2011.

8. Analysis of charitable expenditure

The following table lists the major grants made during the year and the amount disclosed represents the amount which is recorded in the Statement of Financial Activities for the year ended 31 December 2010. No grants to individuals were approved in the period.

	£
Citizens Advice Bureau, Edinburgh	25,000
National Autistic Society for Scotland	15,000
Interest Link Borders	10,000
Lloyds TSB Foundation England & Wales	1,913
	51,913