

Bank of Scotland Structured Asset Finance Limited

Annual report and financial statements
for the year ended 31 December 2018

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

02279167

Current directors

C G Dowsett
G A Fox
L F C Dorey

**COMPANIES HOUSE
EDINBURGH**

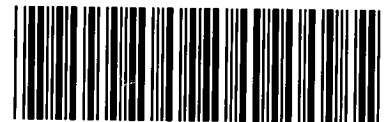
30 SEP 2019

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Company Secretary

A E Mulholland

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COMPANIES HOUSE

Strategic report

For the year ended 31 December 2018

The directors present their Strategic report and the audited financial statements of Bank of Scotland Structured Asset Finance Limited (the "company") for the year ended 31 December 2018.

Review of business

The company is part of the Commercial Banking division of the Lloyds Banking Group plc (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 4.

The company has one finance lease with a net book value of £104,371,000. Finance lease income of £4,640,000 was received in the year.

The investment in subsidiary undertakings did not change materially during the year. One of the company's subsidiary undertakings was sold to another group company during the year and another subsidiary was dissolved. The carrying value of these subsidiaries was £102.

Dividend income of £126,027,000 was received from the company's subsidiary undertakings during the year. This is significantly more than the dividend income of £151,000 from the prior year and the company's profit has increased accordingly.

The position of the company at the year end is detailed in the Directors' Report on pages 2 and 3.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. For further details please refer to note 17 'Financial risk management' 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

30th September 2019

Directors' report

For the year ended 31 December 2018

The directors present their report and the audited financial statements of Bank of Scotland Structured Asset Finance Limited for the year ended 31 December 2018.

Review of Business

The company is a limited company incorporated and domiciled in England and Wales (registered number: 02279167).

During the year, the principal activity of the company was the leasing of assets through finance lease transactions and investments, this is likely to continue for the foreseeable future.

The results of the company show a profit before taxation of £126,493,000 (2017: £211,000 loss) for the year as set out in the statement of comprehensive income on page 4.

The company has shareholders equity of £185,177,000 (2017: £58,785,000).

The Company is funded entirely by other companies within the Lloyds Banking Group.

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. KPIs are monitored and reported at a divisional level.

Dividends

No dividends were paid or proposed during the year ended 31 December 2018 (2017: £nil).

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

The current directors of the company are shown on the front cover.

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and financial statements:

L F C Dorey	(appointed 28 June 2018)
A J Kemp	(resigned 28 June 2018)

Directors' indemnities

Lloyds Banking Group plc ("LBG") 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 the Director 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)

For the year ended 31 December 2018

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Disclosure of information to auditor

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

Approved by the board of directors and signed on its behalf by:



C G Dowsett
Director

30th September 2019

Statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Investment income	3	126,027	151
Finance income	4	5,622	5,525
Finance costs	5	(5,206)	(5,802)
		126,443	(126)
Impairment recovery	6	3	-
Administration expenses	7	(17)	(39)
Foreign exchange gain / (loss)	8	19	(46)
Gain on sale of subsidiary		45	-
Profit/(loss) before tax		126,493	(211)
Taxation	9	(83)	70
Profit/(loss) for the year, being total comprehensive income/(expense) attributable to the owners of the parent		126,410	(141)

The accompanying notes to the financial statements are an integral part of these financial statements.

Balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Amounts due from group undertakings	10	229,432	186,387
Finance lease receivables	11	104,371	105,651
Investment in subsidiary undertakings	15	3,610	3,610
<hr/>			
Total assets		337,413	295,648
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LIABILITIES			
Amounts due to group undertakings	13	137,874	222,497
Deferred taxation liability	12	14,362	14,366
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Total liabilities		152,236	236,863
<hr/>			
EQUITY			
Share capital	14	-	-
Retained earnings		185,177	58,785
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Total equity		185,177	58,785
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Total equity and liabilities		337,413	295,648

The accompanying notes to the financial statements are an integral part of these financial statements.

The financial statements were approved by the board of directors and were signed on its behalf by:



C G Dowsett
Director

30th September 2019

Statement of changes in equity

For the year ended 31 December 2018

	Share capital	Other reserves	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2017	-	-	58,926	58,926
Loss for the year being total comprehensive expense	-	-	(141)	(141)
At 31 December 2017	-	-	58,785	58,785
Transition to IFRS 9 (see note 20)	-	-	(18)	(18)
At 1 January 2018	-	-	58,767	58,767
Profit for the year being total comprehensive income	-	-	126,410	126,410
At 31 December 2018	-	-	185,177	185,177

The accompanying notes to the financial statements are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows generated from operating activities		
Profit/(loss) before tax	126,493	(211)
Adjustments for:		
- Foreign exchange (gain)/loss	(19)	46
- Net decrease in receivables	1,352	34,694
- Net (decrease) / increase in payables	(83,699)	72,217
Cash generated from operations	44,127	106,746
Tax received	68	74
Net cash generated from operating activities	44,195	106,820
Cash flows used in financing activities		
Decrease in bank borrowings	(1,007)	(112,435)
Net cash used in financing activities	(1,007)	(112,435)
Exchange gain on cash and cash equivalents	5	15
Change in Cash and cash equivalents	43,193	(5,600)
Cash and cash equivalents at beginning of year	183,513	189,113
Cash and cash equivalents at end of year	226,706	183,513
Cash and cash equivalents are comprised of:		
Cash at bank	1,844	1,019
Bank deposits	224,862	182,494
	226,706	183,513

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2018

1. Accounting policies

1.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncements relevant to the company have been adopted in these financial statements:

- (i) IFRS 9 'Financial Instruments': Annual improvement to IFRSs (issued December 2016) - Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.

Details of those pronouncements which will be relevant to the company but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in note 22. No standards have been adopted early.

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 directors are satisfied that the company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

1.2 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.

1.3 Income recognition

Income and expense from financial instruments

Interest income and expense are recognised in the statement of the comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Lease classification

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of 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 net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within finance lease receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income.

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.3 Income recognition (continued)

Finance lease income

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 incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the agreement but not future credit losses. The calculation includes all amounts received or paid by the company that are an integral part of the overall return such as acceptance and, where relevant, early settlement fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

1.4 Financial assets and liabilities

Financial assets comprise, amounts due from group undertakings. Financial liabilities comprise amounts due to company's undertakings.

On initial recognition, financial assets are measured at fair value. These are subsequently classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The company reclassifies financial assets when and only when its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

1.5 Impairment of financial assets and lease receivables

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

The company has not adopted the simplified expected credit loss model for its lease receivables, as allowed by IFRS 9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to both financial assets and lease receivables.

1.6 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.

1.7 Dividends

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

1.8 Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the statement of comprehensive income 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 statement of comprehensive income (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.

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.8 Taxation, including deferred income taxes (continued)

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.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

In the course of preparing these financial statements, no critical judgements have been made in the process of applying the company's accounting policies, other than those involving estimations which are disclosed separately below.

The following are critical accounting estimates that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

Allowance for impairment losses

In the year under IFRS 9, the company's accounting policy for impairment on the lease receivables is described in note 1.4.

The calculation of the company's expected credit loss ("ECL") allowances and provisions against financial assets and lease receivable balance under IFRS 9 requires the company to make a number of judgements, assumptions and estimates. The most significant are set out below.

- Definition of default

The probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

Notes to the financial statements (continued)

For the year ended 31 December 2018

2. Critical accounting estimates and judgements in applying accounting policies (continued)

Allowance for impairment losses (continued)

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and lease extensions. Changes to the assumed expected lives of the company's assets could have a material effect on the ECL allowance recognised by the company.

- Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk ("SICR") since initial recognition.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. Financial assets and lease receivables are assumed to have suffered a SICR if they are more than 30 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

- Origination PDs

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not generally available and consequently management's judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. Where applicable, the use of proxies and simplifications is not considered to materially impact the ECL allowance on transition

3. Investment Income

	2018 £'000	2017 £'000
Dividend income	126,027	151
	126,027	151

Dividends of £125,442,000 (£125,442,000 per share) and £585,000 (£585,000 per share) were received during the year from subsidiary undertakings Halifax Leasing (September) Ltd and Halifax Leasing (June) Ltd respectively.

In the prior year, 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.

4. Finance income

	2018 £'000	2017 £'000
Finance lease income	4,640	4,695
Interest receivable on bank deposits with other group undertakings	982	830
	5,622	5,525

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

5. Finance costs

	2018 £'000	2017 £'000
Interest payable to other group undertakings	5,206	5,802
	5,206	5,802

Notes to the financial statements (continued)

For the year ended 31 December 2018

6. Impairment recovery

	2018 £'000	2017 £'000
Impairment recovery of finance lease receivables (Note 17.1)	3	-
	3	-

7. Administration expenses

	2018 £'000	2017 £'000
Professional fees and other related expenses	17	39
	17	39

8. Foreign exchange gain/(loss)

	2018 £'000	2017 £'000
Foreign exchange gain /(loss)	19	(46)
	19	(46)

9. Taxation

	2018 £'000	2017 £'000
a) Analysis of (charge) / credit for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	(84)	69
Current tax charge / credit	(84)	69
UK deferred tax:		
- Origination and reversal of timing differences	1	1
Deferred tax credit (note 12)	1	1
Tax (charge)/credit	(83)	70

Corporation tax is calculated at a rate of 19.00% (2017: 19.25%) of the taxable profit for the year.

Notes to the financial statements (continued)

For the year ended 31 December 2018

9. Taxation (continued)

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	2018 £'000	2017 £'000
Profit/(loss) before tax	126,493	(211)
Tax (charge) / credit thereon at UK corporation tax rate of 19.00% (2017: 19.25%)	(24,034)	41
Factors affecting charge:		
- Disallowed items	6	-
- Non-taxable items	23,945	29
Tax charge on profit on ordinary activities	(83)	70
Effective rate	(0.07%)	(33.18%)

10. Amounts due from group undertakings

	2018 £'000	2017 £'000
Cash at bank	1,844	1,019
Bank deposits	224,862	182,494
Interest receivable	250	104
Amounts due from fellow subsidiary undertakings	2,476	2,701
Taxation receivable	-	69
	229,432	186,387

Cash at bank £1,844,000 (2017: £1,019,000) is unsecured, non interest bearing and repayable on demand.

Bank deposits of £224,862,000 (2017: £182,494,000) are unsecured, interest bearing and repayable on maturity (note 16).

All other balances within amounts due from group undertakings of £2,726,000 (2017: £2,874,000) are unsecured, non interest bearing and payable on demand.

11. Finance lease receivables

	2017 £'000
Finance lease receivables	105,651
Adjustment on adoption of IFRS 9 (Note 20.1)	(21)
Net finance lease receivables	105,630

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross finance lease receivables at 31 December 2017	105,651	-	-	105,651
Balance as at 1 January 2018	105,651	-	-	105,651
Exchange and other adjustments	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net decrease in finance lease receivables	(1,262)	-	-	(1,262)
Gross finance lesae receivables at 31 December 2018	104,389	-	-	104,389
Less: allowance for losses finance lease receivables	(18)	-	-	(18)
Net finance lease receivables	104,371	-	-	104,371

Notes to the financial statements (continued)

For the year ended 31 December 2018

11. Finance lease receivables (continued)

	2018 £'000	2017 £'000
Finance lease receivables	104,389	105,651
Gross finance lease receivables	104,389	105,651
Less: allowance for losses finance lease receivables (Note 17.1)	(18)	-
Net finance lease receivables	104,371	105,651
of which:	2018 £'000	2017 £'000
Due within one year	-	-
Due after one year	104,371	105,651
	104,371	105,651
	Minimum lease payments	Present value of minimum lease payments
	2018 £'000	2017 £'000
Amounts receivable under finance leases	2017 £'000	2018 £'000
Within 1 year	6,829	6,417
2-5 years inclusive	38,830	36,981
After 5 years	120,746	131,175
	166,405	174,573
Less: Unearned finance income	(62,034)	(68,922)
Present value of minimum lease payments receivable	104,371	105,651
Analysed as:		
Non-current finance lease receivables	104,371	105,651
Current finance lease receivables	-	-
	104,371	105,651

The fair value of the company's finance lease receivables at 31 December 2018 is estimated at £98,289,000 (2017: £97,679,000).

12. Deferred taxation liability

The movement in the Deferred taxation liability is as follows:

	2018 £'000	2017 £'000
At 1 January	14,366	14,367
Transition to IFRS 9	(3)	-
At 1 January under IFRS 9 (note 20.1)	14,363	14,367
Deferred taxation credit for the year	(1)	(1)
At 31 December	14,362	14,366

Notes to the financial statements (continued)

For the year ended 31 December 2018

12. Deferred taxation liability (continued)

The deferred tax credit in the Statement of comprehensive income comprises the following temporary differences:

	2018 £'000	2017 £'000
Accelerated capital allowances	(1)	(1)
Total deferred tax credit	(1)	(1)
Deferred taxation comprises:	2018 £'000	2017 £'000
Deferred taxation liabilities are comprised as follows:		
Capital allowances on assets leased to customers	14,362	14,366
Total deferred taxation liabilities	14,362	14,366

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

13. Amounts due to group undertakings

	2018 £'000	2017 £'000
Bank borrowings	85,708	86,716
Interest payable	3,475	3,505
Amounts due to fellow subsidiary undertakings	32,534	116,855
Amounts due to parent undertakings	16,073	15,421
Taxation payable	84	-
	137,874	222,497

Bank borrowings of £85,708,000 (2017: £86,716,000) are unsecured, interest bearing and payable on maturity (see note 16).

All other balances within amounts due to group undertakings of £52,082,000 (2017: £135,781,000) are due within one year.

14. Share capital

	2018 £	2017 £
Allotted, issued and fully paid		
2 ordinary shares of £1 each	2	2
	2	2

Notes to the financial statements (continued)

For the year ended 31 December 2018

14. Share capital (continued)

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.

15. Investment in subsidiary undertakings

	2018 £'000	2017 £'000
At beginning of the year	3,610	3,610
Disposals during the year	-	-
At the end of the year	3,610	3,610

During the year, the company's investment in Katrine leasing Ltd was sold to another group company and its subsidiary undertaking Ocean Leasing (No. 1) Ltd was dissolved. The company's investment in subsidiary undertakings was reduced by the carrying value of £102.

The subsidiary undertakings of the company for the year ended 31 December 2018, all of which are registered in England and Wales are listed below:

Company name	Ownership & Voting (%)	Class of shares	Accounting reference date	Nature of business
Barents Leasing Limited *	100	Ordinary	31/03/2018	Cash management
Halifax Leasing (March No. 2) Limited *	100	Ordinary	31/03/2018	Leasing
Kanto Leasing Limited **	100	Ordinary	31/03/2018	In liquidation
Seaspray Leasing Limited **	100	Ordinary	31/03/2018	In liquidation
Halifax Leasing (June) Limited **	100	Ordinary	30/06/2018	In liquidation
Ocean Leasing July Limited **	100	Ordinary	31/07/2018	In liquidation
Tranquillity Leasing Limited *	100	Ordinary	22/08/2018	Cash management
Halifax Leasing (September) Limited *	100	Ordinary	30/09/2018	Cash management
Ocean Leasing (No. 2) Limited **	100	Ordinary	30/09/2018	In liquidation
Bank of Scotland LNG Leasing (No.1) **	100	Ordinary	31/12/2018	In liquidation
BOSSAF Rail Limited *	100	Ordinary	31/12/2018	Cash management
Chariot Finance Limited **	100	Ordinary	31/12/2018	In liquidation
Nordic Leasing Limited *	100	Ordinary	31/12/2018	Leasing
Pacific Leasing Limited *	100	Ordinary	31/12/2018	Leasing
Seabreeze Leasing Limited *	100	Ordinary	31/12/2018	Cash management
Seaspirit Leasing Limited *	100	Ordinary	31/12/2018	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

Notes to the financial statements (continued)

For the year ended 31 December 2018

16. Related party transactions

The company regarded by the directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc. A number of transactions are entered into with related parties in the normal course of business. A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

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 the front cover of these financial statements.

			2018 £'000	2017 £'000
Amounts due from group undertakings				
Nature of transaction	Related party	Repayment		
Cash at bank	Bank of Scotland plc	No fixed date	1,844	1,019
Bank deposits	Bank of Scotland plc	31/01/2019	224,862	182,494
Taxation receivable	Bank of Scotland plc	No fixed date	-	69
Amounts due from subsidiary undertakings	Various	No fixed date	2,476	2,701
Interest receivable	Bank of Scotland plc	31/01/2019	250	104
Total Amounts due from group undertakings (Note 10)			229,432	186,387
Amounts due to group undertakings				
Nature of transaction	Related party	Repayment		
Bank borrowings	Bank of Scotland plc	31/01/2019	85,708	86,716
Interest payable	Bank of Scotland plc	31/01/2019	3,475	3,505
Amounts due to subsidiary undertakings	Various	No fixed date	32,534	116,855
Amounts due to parent undertakings	Bank of Scotland plc	No fixed date	16,073	15,421
Taxation payable	Bank of Scotland plc	No fixed date	84	-
Total Amounts due to group undertakings (Note 13)			137,874	222,497

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

Dividends of £126,027,000 (2017: £151,000) were received during the year from subsidiaries.

Bank borrowings are interest bearing and during the year rates of interest of between 0.38% and 5.34% (2017: 0.25% and 5.38%) were charged. Finance costs of £5,206,000 (2017: £5,802,000) were incurred during the year.

The company earned interest on bank deposits of £982,000 (2017: £830,000) on which rates of interest between 0.28% and 0.71% (2017: 0.15% and 0.63%) were received

The company received tax of £68,000 (2017: £74,000) during the year from fellow subsidiary undertakings.

The registered offices of related parties are noted below:

Related party	Registered address
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Financial Risk Management

The company's operations expose it to credit risk, liquidity risk, and interest rate risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by Lloyds Banking Group, and the ultimate parent, Lloyds Banking Group plc.

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with finance leases is managed through the application of strict underwriting criteria, determined by the Groups credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses expected to be incurred at the balance sheet date, using the basis of assessment discussed in note 1.5 and 2.

The credit risk associated with amounts due from group undertakings is not considered to be significant.

17.1 Credit risk

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.
- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	2018 £'000	2017 £'000
Amounts due from group undertakings	229,432	186,387
	229,432	186,387
Finance lease receivables – maximum exposure		
		2017 £'000
Neither past due nor impaired		105,651
Past due but not impaired		-
Impaired		-
Maximum exposure – Finance lease receivables		105,651
Finance lease receivables are neither past due nor impaired		
		2017 £'000
Good quality		105,651
Satisfactory quality		-
Lower quality		-
Below standard, but not impaired		-
Total		105,651

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Financial Risk Management (continued)

17.1 Credit risk (continued)

In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

Finance lease receivables - gross carrying amount	2018 £'000
Stage 1	
Good quality	104,389
Satisfactory quality	-
Lower quality	-
Below standard, but not impaired	-
	104,389
Stage 2	
Good quality	-
Satisfactory quality	-
Lower quality	-
Below standard, but not impaired	-
	-
Stage 3	
Credit-impaired	-
Total	104,389

Definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired, are not the same across each segment, reflecting different characteristics of these exposures and the way they are managed internally, therefore no totals are provided. In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

Analysis of movement in the allowance for impairment losses by stage

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of drawn balances				
At 31 December 2017	-	-	-	-
Adjustment on adoption of IFRS 9	21	-	-	21
Balance as at 1 January 2018	21	-	-	21
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Recovery for year	(3)	-	-	(3)
At 31 December 2018	18	-	-	18
In respect of	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Finance lease receivables	18	-	-	18
Total	18	-	-	18

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Financial Risk Management (continued)

17.2 Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations as they fall due.

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

As at 31 December 2018

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Bank borrowings	-	85,708	-	-	-	85,708
Other payables	48,691	3,475	-	-	-	52,166
	48,691	89,183	-	-	-	137,874

As at 31 December 2017

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Bank borrowings	-	86,716	-	-	-	86,716
Other payables	132,276	3,505	-	-	-	135,781
	132,276	90,221	-	-	-	222,497

17.3 Interest rate risk

Interest rate risk is the risk that the future cash flows and fair values of a financial instrument may fluctuate because of changes in market interest rates.

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income by £562,000 (2017: £456,000) and finance costs by £214,000 (2017: £217,000).

17.4 Foreign currency risk

Exposure to foreign currency fluctuations arises due to its financial assets and liabilities being denominated in foreign currencies.

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.

Foreign currency risk - carrying amount

	2018 \$'000	2017 \$'000
Financial assets	501	501
Amounts owed by group companies	501	501

At the year end, if the currency had fluctuated by +/- 25 basis points against the EUR, with all other variables held constant, post tax profit would have changed by an insignificant amount primarily due to assets/liabilities denominated in EUR.

Foreign currency risk - carrying amount

	2018 €'000	2017 €'000
Financial assets	503	503
Amounts owed by group companies	503	503

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Financial Risk Management (continued)

17.4 Foreign currency risk (continued)

	2018 €'000	2017 €'000
Financial liabilities	789	789
Amounts owed by group companies	789	789

17.5 Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value of financial assets carried at fair value

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Fair value hierarchy

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise listed equity shares, treasury bills and other government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable data.

18. Contingent liabilities and capital commitments

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 £42,198,000 (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.

19. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2018

20. Transition to IFRS 9

20.1 Impact of Transition

The following table summarises the adjustments arising on the adoption of IFRS 9 to the Company's Balance sheet as at 1 January 2018.

	As at 31 December 2017	IFRS 9: Classification and measurement	IFRS 9: Impairment	Total IFRS 9 impact on transition	Adjusted as at 1 January 2018
	£'000	£'000	£'000	£'000	£'000
ASSETS					
Amounts due from group undertakings	186,387	-	-	-	186,387
Finance lease receivables	105,651	-	(21)	(21)	105,630
Investment in subsidiary undertakings	3,610	-	-	-	3,610
Total assets	295,648	-	(21)	(21)	295,627
LIABILITIES					
Deferred taxation liability	14,366	-	(3)	(3)	14,363
Amounts due to group undertakings	222,497	-	-	-	222,497
Total liabilities	236,863	-	(3)	(3)	236,860
EQUITY					
Share capital	-	-	-	-	-
Retained earnings	58,785	-	(18)	(18)	58,767
Total equity	58,785	-	(18)	(18)	58,767
Total equity and liabilities	295,648	-	(21)	(21)	295,627

20.2 Impairment

The Company adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 January 2018 and as a result retained earnings reduced by £18,000, driven on the effects of additional impairment provisions following the implementation of the ECL methodology.

The following table summarises the impact of the transitional adjustments on the Company's loss allowances at 1 January 2018,

	IAS 39 allowance as at 31 December 2017 £'000	Transitional adjustments to loss allowance £'000	IFRS 9 loss allowance at 1 January 2018 £'000
Finance lease receivables	-	(21)	(21)
Total	-	(21)	(21)

Notes to the financial statements (continued)

For the year ended 31 December 2018

21. Implementation of IFRS 9 Financial Instruments

This note explains the impact of the adaptation of IFRS 9 Financial Instruments on the Company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of the financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income 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 cashflows, and their contractual cashflows represent solely payments of principle 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 collecting contractual cashflows and selling financial assets and their contractual cashflows represent solely payments of principle 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 and loss.

An entity may, at initial recognition, designate a financial asset as measures at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

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.

Impact on the financial statements

The Company has adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 January 2018.

22. Future developments

The following pronouncements will be relevant to the Company but was not effective at 31 December 2018 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 16 'Leases'	<p>Replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. Accounting as a lessor will remain aligned to the current approach under IAS 17; however for lessee accounting there will no longer be a distinction between finance and operating leases. The transition will result in the recognition of right of use assets and lease liabilities in respect of leased properties previously accounted for as operating leases; there will be no impact on shareholders' equity.</p> <p>The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted.</p>	Annual periods beginning on or after 1 January 2019

Notes to the financial statements (continued)

For the year ended 31 December 2018

23. Ultimate parent undertaking and controlling party

The immediate parent company is Bank of Scotland plc (incorporated in Scotland). The company regarded by the directors as the ultimate parent company and 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. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

24. Post balance sheet events

Since the year end, two of the company's subsidiary investments have been dissolved. These are Seaspray Leasing limited, and Ocean Leasing (No.2) Limited.

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 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 2018; the statement of comprehensive income, the cash flow statement, the statement of changes 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 2018 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.

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
30 September 2019