Tranquillity Leasing Limited

Annual report and financial statements for the year ended 22 August 2019

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

02677724

Current directors

C G Dowsett
L F C Dorey
G A Fox

Company Secretary

A E Mulholland

Member of Lloyds Banking Group

Directors' report

For the year ended 22 August 2019

The directors present their report and the audited financial statements of Tranquillity Leasing Limited ("the Company") for the year ended 22 August 2019.

The Company qualifies as a small company in accordance with sections 381-382 of the Companies Act 2006 (the "Act"). The Directors' report has therefore been prepared taking into consideration the provisions of Part 15 of the Act.

Review of Business

The Company is a limited company incorporated and domiciled in England and Wales, United Kingdom (registered number: 02677724).

During the year, the principal activity of the company was the management of financial assets and liabilities.

The results of the Company show a loss before taxation of £112,000 (2018: £117,000) for the year as set out in the statement of comprehensive income on page 3.

The Company has a net deficit of shareholder's equity of £4,939,000 (2018: £4,848,000).

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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 13 to the financial statements.

In the context of operational resilience, the Company is assessing the risks associated with the current global health issue Covid-19 and continues to analyse the impacts. However, it is difficult at this stage to quantify risks and the degree to which they might crystallise. In addition, Covid-19 could have an adverse impact across risks including our operational risk, funding and liquidity.

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 22 August 2019 (2018: £nil).

Going concern

The financial statements have been prepared on a going concern basis. There is a net liabilities position of £4,939,000 (2018: £4,848,000). The Company has no external debt and is funded by other companies within the Lloyds Banking Group ("the Group").

The Company is also covered by the letter of support from the Lloyds Banking Group plc dated 19 February 2020 that covers Bank of Scotland plc, and all its subsidiaries, which confirms that any additional liabilities will be borne by the ultimate parent company if required.

As a result, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual report and financial statements.

Directors

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

There have been no changes to directors between the beginning of the reporting period and the approval of the Annual report and financial statements.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the company 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. 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 LBG Directors and Officers Liability insurance cover which was in place throughout the financial year.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements 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 auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 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.

Independent auditors

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

C G Dowsett
Director

29 April 2020

Statement of comprehensive income

For the year ended 22 August 2019

	Note	2019 £'000	2018 £'000
Finance income	3	**17**	10
Finance costs	4	**(129)**	(117)
Other operating expenses	5	**-**	(10)
Loss before tax	6	**(112)**	(117)
Taxation	7	**21**	20
Loss after taxation and total comprehensive loss for the year		**(91)**	(97)

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

Balance sheet

As at 22 August 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Amounts due from group undertakings	8	**2,444**	2,407
Total assets		**2,444**	2,407
LIABILITIES			
Amounts due to group undertakings	9	**4,940**	4,941
Other creditors	10	**2,443**	2,314
Total liabilities		**7,383**	7,255
EQUITY			
Share capital	11	**-**	-
Accumulated losses		**(4,939)**	(4,848)
Total equity		**(4,939)**	(4,848)
Total equity and liabilities		**2,444**	2,407

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

29 April 2020

Statement of changes in equity
For the year ended 22 August 2019

	Share capital	Accumulated losses	Total equity
	£'000	£'000	£'000
At 22 August 2017	-	(4,751)	(4,751)
Total comprehensive loss for the year			
Loss for the year	-	(97)	(97)
At 22 August 2018	-	**(4,848)**	**(4,848)**
Adjustment on adoption IFRS 9 (note 16)	-	-	-
At 23 August 2018	-	(4,848)	(4,848)
Total comprehensive loss for the year			
Loss for the year	-	(91)	(91)
At 22 August 2019	-	**(4,939)**	**(4,939)**

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

Cash flow statement

For the year ended 22 August 2019

	Note	2019 £'000	2018 £'000
Cash flows generated from operating activities			
Loss before tax		**(112)**	(117)
Operating cash flows before movements in working capital		**(112)**	(117)
Decrease in receivables		**-**	(1)
Increase in payables		**129**	117
Cash generated from/(used in) operations		**17**	(1)
Tax received		**20**	42
Net cash generated from operating activities		**37**	41
Change in cash and cash equivalents		**37**	41
Cash and cash equivalents at beginning of year		**2,405**	2,364
Cash and cash equivalents at end of year		**2,442**	2,405
Cash and cash equivalents are comprised of:			
Cash at bank	8	**103**	83
Bank deposit	8	**2,339**	2,322
		2,442	2,405

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

Notes to the financial statements

For the year ended 22 August 2019

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, under the historical cost convention. 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.

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

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 22 August 2019 and which have not been applied in preparing these financial statements are given in note 17. No standards have been early adopted.

The financial statements have been prepared on a going concern basis. There is a net liabilities position of £4,939,000 (2018: £4,848,000).

The Company is also covered by the letter of support from the Lloyds Banking Group plc dated 19 February 2020 that covers Bank of Scotland plc, and all its subsidiaries, which confirms that any additional liabilities will be borne by the ultimate parent company if required.

As a result, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual report and financial statements.

1.2 Financial assets and liabilities

Financial assets comprise, Amounts due from group undertakings. Financial liabilities comprise Amounts due to group undertakings and Other Creditors.

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 Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group 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 Group 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 Group'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 Group has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards.

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

1.3 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 financial assets and lease receivables.

1.4 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. Accounting policies (continued)

1.5 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.

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.

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 accounting estimates or 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.

3. Finance income

	2019	2018
	£'000	£'000
Interest receivable on bank deposits from other group companies	**17**	10
	17	10

4. Finance costs

	2019	2018
	£'000	£'000
Interest payable on overdue tax	**129**	117
	129	117

5. Other operating expenses

	2019	2018
	£'000	£'000
Professional fees	-	9
Other operating expenses	-	1
	21	10

6. Loss before tax

Fees payable to the company's auditors for the audit of the financial statements of £4,500 (2018: £4,500) have been borne by the ultimate parent company and are not recharged to the company.

The company has no employees (2018: nil).

6. Loss before tax (continued)

The LBG Directors, who are considered to be key management, received no remuneration in respect of their services to the company. The emoluments of the LBG Directors are paid by a fellow Group undertaking on behalf of the ultimate parent, Lloyds Banking Group plc, which makes no recharge to the company. The LBG Directors are also directors of a number of other subsidiaries of the Group and are also substantially engaged in managing their respective business areas within the Group. Given this, it is not possible to make an accurate apportionment of LBG Directors' emoluments in respect of their services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of the LBG Directors.

7. Taxation

	2019 £'000	2018 £'000
a) Analysis of credit for the year		
UK corporation tax:		
- Current tax receivable on taxable loss for the year	**21**	20
Tax credit	**21**	20

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax credit for the year

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

	2019 £'000	2018 £'000
Loss before tax	**(112)**	(117)
Tax credit thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**21**	22
Factors affecting credit:		
- Tax losses where no deferred Tax recognised	**-**	(2)
Tax credit on loss on ordinary activities	**21**	20
Effective rate	**18.75%**	17.09%

Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent on 1 April 2020.

8. Amounts due from group undertakings

	2019 £'000	2018 £'000
Cash at bank	**103**	83
Bank deposits	**2,339**	2,322
Interest receivable	**2**	2
	2,444	2,407

Cash at bank £103,000 (2018: £ 83,000) is unsecured, non interest bearing and repayable on demand (note 12).

Bank deposit £2,339,000 (2018: £2,322,000) are unsecured, interest bearing and repayable on maturity (note 12).

Interest receivable £2,000 (2018: £2,000) is unsecured, non interest bearing and payable on demand.

Notes to the financial statements (continued)
For the year ended 22 August 2019

9. Amounts due to group undertakings

	2019 £'000	2018 £'000
Tax Payable	**4,320**	4,321
Amounts due to immediate parent undertaking	**620**	620
	4,940	4,941

All balances within amounts due to group undertakings of £4,940,000 (2018: £4,941,000) are unsecured, non interest bearing and payable on demand (note 12).

10. Other creditors

	2019 £'000	2018 £'000
Other creditors	**2,443**	2,314
	2,443	2,314

Other creditors of £2,443,000 (2018: £2,314,000) is interest accrued on overdue tax.

11. Share capital

	2019 £	2018 £
Allotted, issued and fully paid		
2 ordinary shares of £1 each	**2**	2

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.

12. Related party transactions

The Company is controlled by Lloyds Banking Group. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

			2019 £'000	2018 £'000
Amounts due from group undertakings				
Nature of transaction	Related party	Repayment		
Cash at bank	Bank of Scotland plc	No fixed date	**103**	83
Bank deposits	Bank of Scotland plc	15/10/2019	**2,339**	2,322
Interest receivable	Bank of Scotland plc	No fixed date	**2**	2
Total Amounts due from group undertakings (note 8)			**2,444**	2,407

12. Related party transactions (continued)

Amounts due to group undertakings			2019 £'000	2018 £'000
Nature of transaction	Related party	Repayment		
Tax payable	Bank of Scotland plc	Various	**4,320**	4,321
Amounts due to immediate parent undertakings	Bank of Scotland Structured Asset Finance Limited	No fixed date	**620**	620
Total Amounts due to group undertakings (note 9)			**4,940**	4,941

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

The company received taxation of £20,000 (2018: £42,000 received) during the year to fellow subsidiary undertakings.

The company earned interest on bank deposits of £17,000 (2018 £10,000) on which rates of interest of between 0.64% and 0.82% (2018: rates of interest between 0.19% and 0.69%) were received.

The registered offices of related parties are noted below:

Related party	Registered address
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ
Bank of Scotland Structured Asset Finance Limited	25 Gresham Street, London, EC2V 7HN

13. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, market 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.

13.1 Credit risk

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 credit sale agreements, finance leases and trade receivables 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 1.4 and 2.

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

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.

13. Financial risk management (continued)

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.

	2019 £'000	2018 £'000
Amounts due from group undertakings	**2,444**	2,407
	2,444	2,407

13.2 Liquidity risk

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

The Company is funded entirely by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

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

As at 22 August 2019

	On demand £'000	*Up to 1 month* £'000	*1-3 months* £'000	*3-12 months* £'000	*1-5 years* £'000	*Total* £'000
Other creditors	**2,443**	**-**	**-**	**-**	**-**	**2,443**
Amounts due to group undertakings	**4,940**	**-**	**-**	**-**	**-**	**4,940**
	7,383	**-**	**-**	**-**	**-**	**7,383**

As at 22 August 2018

	On demand £'000	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Other liabilities	7,255	-	-	-	-	7,255
	7,255	-	-	-	-	7,255

13.3 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.

The company has no exposure to variable interest terms on both lending or borrowing. As such the company has no exposure to financial risk arising from changes in market interest rates.

13.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company's transactions are all denominated in pounds sterling and as such the company has no exposure to foreign currency risk.

14. 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 £1,026,000 (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.

15. Events since the balance sheet date

Since the Balance sheet date there has been a global pandemic from the outbreak of Covid-19 which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to have no impact on the financial position of the Company.

16. 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 23 August 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2018 has not been restated and transitional adjustments have been accounted for through retained earnings as at 23 August 2018.

The company has conducted an analysis of these changes and does not consider there to be any significant impact of applying IFRS 9 to the financial statements.

17. Future developments

The following pronouncement will be relevant to the Company but was not effective at 22 August 2019 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 16 'Leases	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. The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted.	Annual periods beginning on or after 1 January 2019

18. Ultimate parent undertaking and controlling party

The immediate parent company is Bank of Scotland Structured Asset Finance Limited (incorporated in Scotland). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRANQUILLITY LEASING LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Tranquillity Leasing Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 22 August 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and Financial statements (the "Annual Report"), which comprise: the Balance sheet as at 22 August 2019; 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

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

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

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

Reporting on other information

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

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

With respect to the 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRANQUILLITY LEASING LIMITED (CONTINUED)

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 22 August 2019 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 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, 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 director is 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

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

Edinburgh
29 April 2020