

Bank of Scotland Structured Asset Finance Limited

Annual report and financial statements for the year ended 31 December 2020

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

02279167

Current directors

C G Dowsett
L F C Dorey
G A Fox

Company Secretary

A E Mulholland

Strategic report

For the year ended 31 December 2020

The Directors present their Strategic report of Bank of Scotland Structured Asset Finance Limited (the "Company") for the year ended 31 December 2020.

Business overview

The Company is part of the Commercial Banking division of the Lloyds Banking Group plc group of companies ("the Group"), principally focussed 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.

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

The Company has one (2019: one) Finance lease receivable in the water utilities sector with a net book value of £100,039,000 (2019: £102,596,000) at the year end. This finance lease generated income of £4,662,000 (2019: £4,565,000) in the year.

The Company continues to operate as an investment holding company and at the year end date holds investments with a carrying value of £3,610,000 (2019: £3,610,000). During the year four (2019: three) subsidiary companies were dissolved.

Dividend income of £24,000 was received from one subsidiary undertaking during the year. During the prior year dividend income of £12,102,000 was received from one subsidiary undertaking.

The financial performance of the Company is detailed in the Statement of comprehensive income on page 5.

The position of the Company at the year end is detailed in the Directors' report on pages 3 and 4.

Future outlook

The Company is part of the wider Lloyds Banking Group, and, at that level, following the UK's vote to leave the European Union ("EU") and the UK's subsequent exit from the EU on the 31 December 2020, consideration of many of the potential implications has been undertaken. Work continues to assess the impact of the EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 December 2020, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

- Statement of Engagement with Other Stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with, and had regard to, the interest of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

- Customers

The Directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions and focussing on treating customers fairly. The Directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. Lloyds Banking Group plc regularly benchmarks amongst its customers the performance of itself and its subsidiaries, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience.

Strategic report (continued)

For the year ended 31 December 2020

Section 172(1) statement (continued)

- Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's commercial division. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2020, which does not form part of this report, available on the Lloyds Banking Group plc website.

- Communities and the Environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment, it does however continue to support Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its facilities. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2020, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

- How stakeholder interest has influenced decision making

The Directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of Lloyds Banking Group plc, is to effectively manage its remaining customer base to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

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 21 to the financial statements.

The global pandemic from the outbreak of COVID-19 is causing widespread disruption to financial markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the COVID-19 pandemic are resulting in adverse impacts on economic activity across the world, and the duration for which such measures will remain in place is uncertain. The impact on the economy is currently highly uncertain in both its depth and length, and may go beyond current forecasts of scale of loss of output and recession in the UK and globally.

However, the economic impact of the COVID-19 pandemic is not expected to have a material impact on the going concern of the Company.

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.

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



C G Dowsett

Director

18 August 2021

Directors' report

For the year ended 31 December 2020

The Directors present their Annual report and audited financial statements of the Company for the year ended 31 December 2020.

General information

The Company is a private company limited by shares, incorporated and domiciled in England and Wales, United Kingdom (registered number: 02279167).

Review of Business

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

The results of the Company show a profit before taxation of £1,777,000 (2019: £12,821,000) for the year as set out in the Statement of comprehensive income on page 5.

The Company has shareholders' equity of £126,402,000 (2019: £126,655,000).

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

Employees

The Company has no direct employees (2019: none). All staff are employed by other group undertakings and no staff costs are recharged to the Company.

Dividends

No dividends were paid or proposed during the year ended 31 December 2020 (2019: £71,200,000).

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 year and the approval of the Annual report and financial statements.

No director had any interest in any material contract or arrangement with the Company during or at the end of the year.

Directors' indemnities

Lloyds Banking Group plc ("LBG") has granted to the Directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. 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 deed of indemnity during that period of service. 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.

Going Concern

The Company has a net asset position at the year end. The directors have considered this, along with the expected activities of the company for the foreseeable future, and have reached the conclusion that the company will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The funding facility available to the Company is renewed on an annual basis. The next renewal date is February 2022 and it's the Directors' belief that the facility will be renewed.

The Directors are also satisfied that it is the intention of LBG that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future.

Directors' report (continued)

For the year ended 31 December 2020

Information included in the Strategic report

The disclosures for Principle risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on pages 1 and 2.

Statement of directors' responsibilities

The Directors are responsible for preparing the Directors' and Strategic reports and 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 Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 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. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of 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

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the Directors of the Company resolve to terminate their appointment. Following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Company for accounting periods ending on or after 31 December 2021.

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



C G Dowsett

Director

18 August 2021

Statement of comprehensive income

For the year ended 31 December 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|------|---------------|---------------|
| Finance income | 4 | 5,211 | 6,229 |
| Finance costs | 5 | (5,174) | (5,503) |
| Investment income | 6 | 24 | 12,102 |
| | | 61 | 12,828 |
| Other operating income | 7 | 2,195 | 26 |
| Administration expenses | 8 | (40) | (30) |
| Foreign exchange loss/result | | (25) | - |
| Impairment charge | 9 | (414) | (3) |
| Profit before tax | 10 | 1,777 | 12,821 |
| Taxation | 11 | (2,030) | (143) |
| (Loss)/Profit after tax and total comprehensive income | | (253) | 12,678 |

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

Balance sheet

As at 31 December 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---------------------------------------|------|----------------|----------------|
| ASSETS | | | |
| Amounts due from group undertakings | 13 | 150,505 | 245,991 |
| Finance lease receivables | 14 | 100,039 | 102,596 |
| Investment in subsidiary undertakings | 12 | 3,610 | 3,610 |
| <hr/> | | | |
| Total assets | | 254,154 | 352,197 |
| <hr/> | | | |
| LIABILITIES | | | |
| Amounts due to group undertakings | 17 | 111,701 | 211,180 |
| Deferred tax liability | 16 | 16,051 | 14,362 |
| <hr/> | | | |
| Total liabilities | | 127,752 | 225,542 |
| <hr/> | | | |
| EQUITY | | | |
| Share capital | 19 | - | - |
| Retained earnings | | 126,402 | 126,655 |
| <hr/> | | | |
| Total equity | | 126,402 | 126,655 |
| <hr/> | | | |
| Total equity and liabilities | | 254,154 | 352,197 |

The accompanying notes 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
18 August 2021

Statement of changes in equity

For the year ended 31 December 2020

| | Share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|---------------------------------------|---------------------------|-------------------------------|--------------------------|
| Balance at 1 January 2019 | - | 185,177 | 185,177 |
| Comprehensive income | | | |
| Profit for the year | - | 12,678 | 12,678 |
| Total comprehensive income | - | 12,678 | 12,678 |
| Transactions with owners | | | |
| Dividends | - | (71,200) | (71,200) |
| Total transactions with owners | - | (71,200) | (71,200) |
| At 31 December 2019 | - | 126,655 | 126,655 |
| Comprehensive income | | | |
| Loss for the year | - | (253) | (253) |
| Total comprehensive income | - | (253) | (253) |
| At 31 December 2020 | - | 126,402 | 126,402 |

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

Cash flow statement

For the year ended 31 December 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|------|------------------|----------------|
| Profit before tax | | 1,777 | 12,821 |
| Adjustments for: | | | |
| - Movement in impairment allowance for finance leases | | 414 | 3 |
| - Foreign exchange loss | | 25 | - |
| Operating cash flows before movements in working capital | | 2,216 | 12,824 |
| (Increase)/decrease in Trade and other receivables | | (12,889) | 1,741 |
| Decrease in Trade and other payables | | (14,324) | (7,312) |
| Cash (used in)/generated from operations | | (24,997) | 7,253 |
| Tax paid | | (143) | (84) |
| Net cash (used in)/generated from operating activities | | (25,140) | 7,169 |
| Cash flows (used in)/generated from financing activities | | | |
| (Decrease)/Increase in bank borrowings | | (85,390) | 80,521 |
| Dividends paid | | - | (71,200) |
| Net cash (used in)/generated from financing activities | | (85,390) | 9,321 |
| Exchange movements on cash and cash equivalents | | 25 | (34) |
| Change in cash and cash equivalents | | (110,505) | 16,456 |
| Cash and cash equivalents at beginning of year | | 243,162 | 226,706 |
| Cash and cash equivalents at end of year | | 132,657 | 243,162 |
| Cash and cash equivalents comprise | | | |
| Cash at bank | 13 | 132,657 | 899 |
| Bank deposits | 13 | - | 242,263 |
| Total cash and cash equivalents | | 132,657 | 243,162 |

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

Notes to the financial statements

For the year ended 31 December 2020

1. Basis of preparation

These financial statements have been prepared in accordance with applicable IFRSs in conformity with the requirements of the Companies Act 2006. 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 financial information has been prepared under the historical cost convention. As stated below, the Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

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

No new IFRS pronouncements have been adopted in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2020 and which have not been applied in preparing these financial statements are given in note 23. No standards have been early adopted.

The Company has a net asset position at the year end. The directors have considered this, along with the expected activities of the company for the foreseeable future, and have reached the conclusion that the company will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The funding facility available to the Company is renewed on an annual basis. The next renewal date is February 2022 and it's the Directors' belief that the facility will be renewed.

The Directors are also satisfied that it is the intention of LBG that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future.

2. Accounting policies

The Company's accounting policies are set out below. These accounting policies have been applied consistently.

2.1 Income recognition

Income and expense from financial instruments

Interest income and expense are recognised in the Income statement 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 2020

2. Accounting policies (continued)

2.1 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.

Interest expense for all interest bearing financial instruments is recognised in the Income statement as it accrues, within finance costs.

2.2 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings. Financial liabilities comprise Amounts due to group 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.

2.3 Impairment of financial assets and lease receivables

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses. Expected credit losses are recognised for financial assets and finance lease receivables. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance 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 since origination, allowance 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 since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.3 Impairment of financial assets and lease receivables (continued)

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Group's management of credit risk which utilises these internal metrics within risk management practices. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Company uses this 90 day backstop for all its products.

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.

2.4 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.

2.5 Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

2.6 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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.7 Investments

Investment in subsidiary undertakings

Investment in subsidiary undertakings is stated in the Balance sheet at cost less any provision for impairment.

Investment in subsidiary undertakings is reviewed for impairment losses at the end of each period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use. For the purposes of assessing impairment, investments are grouped at the lowest level at which cash flows are separately monitored by management.

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, Bank of Scotland plc.

Dividend income is recognised when the right to receive payment is established and recognised in the Statement of comprehensive income as Investment income.

2.8 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Dividends on ordinary shares are recognised as a reduction in equity in the period in which they are paid.

3. Critical accounting estimates and judgements

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the course of preparing the 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

The Company recognises an allowance for expected credit losses for finance lease receivables. At 31 December 2020, the Company's expected credit loss allowance was £435,000 (2019: £21,000), of which £435,000 (2019: £21,000) was in respect of drawn balances.

The calculation of the Company's expected credit loss (ECL) allowances under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

Notes to the financial statements (continued)

For the year ended 31 December 2020

3. Critical accounting estimates and judgements (continued)

Allowance for impairment losses (continued)

- 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.

- Lifetime of an exposure

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 refinancing. Changes to the assumed expected lives of the Company's assets could impact 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. Credit impaired assets are transferred to Stage 3 with a lifetime expected losses allowance.

The Company uses both quantitative and qualitative indicators to determine whether there has been a SICR for an asset. All financial assets and lease receivables are assumed to have suffered a SICR if they are more than 30 days past due; Financial assets are classified as credit impaired if they are 90 days past due.

4. Finance income

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Finance lease income | 4,662 | 4,565 |
| Interest receivable on bank deposits from other group companies | 549 | 1,664 |
| | 5,211 | 6,229 |

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

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Interest payable on bank loans from other group undertakings | 5,174 | 5,503 |
| | 5,174 | 5,503 |

6. Investment income

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Dividends received from subsidiary undertaking | 24 | 12,102 |
| | 24 | 12,102 |

A dividend of £24,000 (£12,000 per share) was received during the year from subsidiary undertaking Nordic Leasing Limited.

In the prior year a dividend of £12,102,000 (£6,051,000 per share) was received during the year from subsidiary undertaking Nordic Leasing Limited.

Notes to the financial statements (continued)

For the year ended 31 December 2020

7. Other operating income

| | 2020 £'000 | 2019 £'000 |
|------------------------|---------------|---------------|
| Other operating income | 2,195 | 26 |
| | 2,195 | 26 |

8. Administration expenses

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Professional fees and other related expenses | 40 | 30 |
| | 40 | 30 |

9. Impairment charge

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Impairment charge of finance lease receivables | (414) | (3) |
| | (414) | (3) |

10. Profit before tax

Fees payable to the Company's auditors for the audit of the financial statements of £7,500 (2019: £7,500) have been borne by the ultimate parent company and are not recharged to the Company.

The Company has no employees (2019: none).

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

11. Taxation

| | 2020 £'000 | 2019 £'000 |
|--|----------------|---------------|
| a) Analysis of charge for the year | | |
| UK corporation tax: | | |
| - Current tax payable on taxable profit for the year | (341) | (143) |
| Current tax charge | (341) | (143) |
| UK deferred tax: | | |
| - Origination and reversal of timing differences | 1 | - |
| - Impact of deferred tax rate change | (1,690) | - |
| Deferred tax (charge)/credit (see note 16) | (1,689) | - |
| Tax charge | (2,030) | (143) |

Corporation tax is calculated at a rate of 19.00% (2019: 19.00%) of the taxable profit for the year.

Notes to the financial statements (continued)

For the year ended 31 December 2020

11. 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:

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Profit before tax | 1,777 | 12,821 |
| Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%) | (337) | (2,436) |
| Factors affecting charge: | | |
| - Disallowed items | (7) | (6) |
| - Effect of reduction in tax rate and related impacts | (1,690) | - |
| - Non taxable items | 4 | 2,299 |
| Tax charge on profit on ordinary activities | (2,030) | (143) |
| Effective rate | (114.24%) | (1.12%) |

12. Investment in subsidiary undertakings

| | 2020 £'000 | 2019 £'000 |
|----------------------|---------------|---------------|
| At beginning of year | 3,610 | 3,610 |
| Impairment | - | - |
| At end of year | 3,610 | 3,610 |

During the year, the Company's subsidiary undertakings; Halifax Leasing (June) Limited, Ocean Leasing (July) Limited, Chariot Finance Limited and Bank of Scotland LNG Leasing (No 1) Limited were dissolved. The Company's investment in subsidiary undertakings was reduced by the carrying value of £5.

The principal subsidiary undertakings of the Company all of which are registered in England and Wales, are:

| Company name | Ownership & Voting (%) | Accounting reference date | Nature of business |
|---|------------------------|---------------------------|--------------------|
| Barents Leasing Limited * | 100 | 31 March 2020 | Leasing |
| Halifax Leasing (March No. 2) Limited * | 100 | 31 March 2020 | Cash management |
| Tranquillity Leasing Limited * | 100 | 22 August 2020 | Cash management |
| Halifax Leasing (September) Limited * | 100 | 30 September 2020 | Cash management |
| BOSSAF Rail Limited * | 100 | 31 December 2020 | Holding company |
| Nordic Leasing Limited ** | 100 | 31 December 2020 | In liquidation |
| Pacific Leasing Limited * | 100 | 31 December 2020 | Leasing |
| Seabreeze Leasing Limited * | 100 | 31 December 2020 | Cash management |
| Seaspirit Leasing Limited * | 100 | 31 December 2020 | 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 2020

13. Amounts due from group undertakings

| | 2020 £'000 | 2019 £'000 |
|--|----------------|----------------|
| Cash at bank | 132,657 | 899 |
| Bank deposits | - | 242,263 |
| Interest receivable | - | 352 |
| Amounts due from subsidiary undertakings | 17,848 | 2,477 |
| | 150,505 | 245,991 |

Cash at bank of £132,657,000 (2019: £899,000) is unsecured, non interest bearing and repayable on demand. For further details, please refer to note 20.

Bank deposits of £nil (2019: £242,263,000) are unsecured, interest bearing and payable on maturity. For further details, please refer to note 20.

All other balances within Amounts due from subsidiary undertakings of £17,848,000 (2019: £2,829,000) are unsecured, non interest bearing and payable on demand. For further details, please refer to note 20.

14. Finance lease receivables

| | 2020 £'000 | 2019 £'000 |
|------------------------------------|----------------|----------------|
| Gross investment in finance leases | 100,474 | 102,617 |
| Allowance for losses | (435) | (21) |
| Net investment in finance leases | 100,039 | 102,596 |

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|----------------|
| Balance at 1 January 2020 | 102,617 | - | - | 102,617 |
| Exchange and other adjustments | - | - | - | - |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Net decrease in finance lease receivables | (2,143) | - | - | (2,143) |
| Gross investment in finance leases at 31 December 2020 | 100,474 | - | - | 100,474 |
| Allowance for impairment losses | (435) | - | - | (435) |
| Net investment in finance leases at 31 December 2020 | 100,039 | - | - | 100,039 |

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|----------------|
| Balance at 1 January 2019 | 104,389 | - | - | 104,389 |
| Exchange and other adjustments | - | - | - | - |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Net decrease in finance lease receivables | (1,772) | - | - | (1,772) |
| Gross investment in finance leases at 31 December 2019 | 102,617 | - | - | 102,617 |
| Allowance for impairment losses | (21) | - | - | (21) |
| Net investment in finance leases at 31 December 2019 | 102,596 | - | - | 102,596 |

Notes to the financial statements (continued)

For the year ended 31 December 2020

14. Finance lease receivables (continued)

The gross investment in finance leases represents amounts recoverable as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Not later than 1 year | 7,360 | 7,284 |
| Later than 1 year and not later than 2 years | 9,953 | 9,459 |
| Later than 2 years and not later than 3 years | 10,451 | 9,932 |
| Later than 3 years and not later than 4 years | 10,974 | 10,429 |
| Later than 4 years and not later than 5 years | 11,522 | 10,950 |
| Later than 5 years | 98,506 | 109,797 |

| | | |
|--|---------------------|---------------------|
| Unearned future finance income on finance leases | 148,766 (48,727) | 157,851 (55,255) |
|--|---------------------|---------------------|

| | | |
|----------------------------------|---------|---------|
| Net investment in finance leases | 100,039 | 102,596 |
|----------------------------------|---------|---------|

The net investment in finance leases represents amounts recoverable as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Not later than 1 year | 893 | - |
| Later than 1 year and not later than 2 years | 3,718 | 3,009 |
| Later than 2 years and not later than 3 years | 4,495 | 4,343 |
| Later than 3 years and not later than 4 years | 5,335 | 4,488 |
| Later than 4 years and not later than 5 years | 6,293 | 5,326 |
| Later than 5 years | 79,305 | 85,430 |

| | | |
|----------------------------------|---------|---------|
| Net investment in finance leases | 100,039 | 102,596 |
|----------------------------------|---------|---------|

The fair value of the Company's finance lease receivables at 31 December 2020 is estimated at £94,665,000 (2019: £97,251,000).

15. Allowance for impairment losses

Analysis of movement in the allowance for impairment losses by stage:

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|-------------------------------------|------------------|------------------|------------------|----------------|
| <i>In respect of drawn balances</i> | | | | |
| At 31 December 2019 | (21) | - | - | (21) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Charge for the year | (414) | - | - | (414) |
| At 31 December 2020 | (435) | - | - | (435) |

Notes to the financial statements (continued)

For the year ended 31 December 2020

15. Allowance for impairment losses

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|-------------------------------------|------------------|------------------|------------------|----------------|
| <i>In respect of drawn balances</i> | | | | |
| At 31 December 2018 | (18) | - | - | (18) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Charge for the year | (3) | - | - | (3) |
| At 31 December 2019 | (21) | - | - | (21) |

16. Deferred tax liability

The movement in the deferred taxation is as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| At 1 January | (14,362) | (14,362) |
| Deferred tax credit for the year | 1 | - |
| Impact of tax rate change on deferred tax credit for the year | (1,690) | - |
| At 31 December | (16,051) | (14,362) |

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

| | 2020 £'000 | 2019 £'000 |
|--------------------------------|---------------|---------------|
| Accelerated capital allowances | (1,689) | - |
| Deferred tax charge | (1,689) | - |

Deferred taxation liabilities are comprised as follows:

| | 2020 £'000 | 2019 £'000 |
|-------------------------------------|---------------|---------------|
| Accelerated capital allowances | (16,051) | (14,362) |
| Total deferred taxation liabilities | (16,051) | (14,362) |

The Finance Act 2016 reduced the main rate of corporation tax to 17.00% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19.00% with effect from 1 April 2020.

The Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19.00% to 25.00% with effect from 1 April 2023. Had this change in corporation tax been enacted on 31 December 2020, the effect would have been to increase net deferred tax liabilities by £5,069,000.

Notes to the financial statements (continued)

For the year ended 31 December 2020

17. Amounts due to group undertakings

| | 2020 £'000 | 2019 £'000 |
|--|----------------|----------------|
| Bank borrowings | 80,839 | 166,229 |
| Interest payable | 3,333 | 3,448 |
| Amounts due to subsidiary undertakings | 17,519 | 32,450 |
| Amounts due to parent undertakings | 9,669 | 8,910 |
| Taxation payable | 341 | 143 |
| | 111,701 | 211,180 |

Bank borrowings of £80,839,000 (2019: £166,229,000) are unsecured, interest bearing and payable on maturity. For further details, please refer to note 20.

All other balances within Amounts due to group undertakings of £30,862,000 (2019: £44,951,000) are unsecured, non interest bearing and payable on demand. For further details, please refer to note 20.

18. Dividends

| | 2020 £'000 | 2019 £'000 |
|----------------|---------------|---------------|
| Dividends paid | - | 71,200 |
| | - | 71,200 |

No dividends were paid or proposed during the year ended 31 December 2020. In the prior year a dividend of £71,200,000 was paid to Bank of Scotland plc.

19. Share capital

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Allotted, issued and fully paid | | |
| 2 (2019: 2) ordinary shares of £1 each | - | - |

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Company's parent manages the Company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in shareholder's equity.

Notes to the financial statements (continued)

For the year ended 31 December 2020

20. Related party transactions

The Company's immediate parent company is Bank of Scotland plc. The company regarded by the Directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Bank of Scotland plc is the parent company of the smallest such group of undertakings. Copies of the group financial statements may be downloaded via www.lloydsbankinggroup.com.

The Company's related parties include other companies in the Group and the Company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's directors, who are listed on the cover of these financial statements.

A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

| | | | | 2020 | 2019 |
|---|----------------------|------------------|-----------------|---------|---------|
| | | | | £'000 | £'000 |
| Amounts due from group undertakings | | | | | |
| Nature of transaction | Related party | Repayment | Interest | | |
| Cash at bank | Bank of Scotland plc | No fixed date | N/A | 132,657 | 899 |
| Bank deposits | Bank of Scotland plc | No fixed date | N/A | - | 242,263 |
| Interest receivable | Bank of Scotland plc | No fixed date | N/A | - | 352 |
| Amounts due from subsidiary undertakings | Various | No fixed date | N/A | 17,848 | 2,477 |
| Total amounts due from group undertakings (note 13) | | | | 150,505 | 245,991 |

| | | | | 2020 | 2019 |
|---|----------------------|------------------|-----------------|---------|---------|
| | | | | £'000 | £'000 |
| Amounts due to group undertakings | | | | | |
| Nature of transaction | Related party | Repayment | Interest | | |
| Bank borrowings | Bank of Scotland plc | 25/03/2032 | 5.34% | 80,839 | 166,229 |
| Interest payable | Bank of Scotland plc | 25/03/2032 | N/A | 3,333 | 3,448 |
| Amounts due to subsidiary undertakings | Various | No fixed date | N/A | 17,519 | 32,450 |
| Amounts due to parent undertakings | Bank of Scotland plc | No fixed date | N/A | 9,669 | 8,910 |
| Taxation payable | Bank of Scotland plc | No fixed date | N/A | 341 | 143 |
| Total amounts due to group undertakings (note 17) | | | | 111,701 | 211,180 |

| | | 2020 | 2019 |
|--|------------------------|-------|--------|
| | | £'000 | £'000 |
| Finance income | | | |
| Interest receivable | Bank of Scotland plc | 549 | 1,664 |
| Finance costs | | | |
| Interest payable on bank loans from other group undertakings | Bank of Scotland plc | 5,174 | 5,503 |
| Investment income | | | |
| Dividends received from subsidiary undertaking | Nordic Leasing Limited | 24 | 12,102 |

There were no doubtful debts relating to the above balances incurred during the year.

Amounts due to group undertakings of £2,194,000 (2019: £26,000) were written back to the Statement of comprehensive income in the current year.

Bank borrowings are interest bearing and during the year rates of interest of between 0.66% and 5.34% (2019: 0.67% and 5.34%) were charged.

The Company earned interest on bank deposits on which interest rates of between 0.56% and 0.69% (2019: 0.59% and 0.83%) were received.

The Company paid taxation of £143,000 (2019: £84,000) during the year to a fellow subsidiary undertaking.

The Company received a dividend of £24,000 (2019: £10,800,000) from a subsidiary undertaking.

Notes to the financial statements (continued)

For the year ended 31 December 2020

20. Related party transactions (continued)

The registered offices of related parties are noted below:

| Related party | Related party relationship | Registered address |
|------------------------|----------------------------|------------------------------------|
| Bank of Scotland plc | Immediate parent company | The Mound, Edinburgh, EH1 1YZ |
| Nordic Leasing Limited | Subsidiary undertaking | 25 Gresham Street, London EC2V 7HN |

21. Financial risk management

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

21.1 Credit risk

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 Group's 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 2.3 and 3.

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.

Maximum credit exposure

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.

| | 2020 £'000 | 2019 £'000 |
|-------------------------------------|---------------|---------------|
| Amounts due from group undertakings | 150,505 | 245,991 |
| Finance lease receivables | 100,474 | 102,617 |
| | 250,979 | 348,608 |

The credit risk associated with Amounts due from group undertakings are held with other companies within the Group. The credit risk associated with these financial assets is not considered to be significant.

Notes to the financial statements (continued)

For the year ended 31 December 2020

21. Financial risk management (continued)

21.1 Credit risk (continued)

Credit quality of finance lease receivables

The analysis of lending has been prepared based on the division in which the asset is held; with the business segment in which the exposure is recorded reflected in the ratings system applied. All probabilities of default (PDs) include forward-looking information and are based on 12 month values, with the exception of credit impaired.

At 31 December 2020

| Grade | PD range | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|-----------|--------------|------------------|------------------|------------------|----------------|
| CMS 1-10 | 0.00-0.50% | - | - | - | - |
| CMS 11-14 | 0.51-3.00% | 100,474 | - | - | 100,474 |
| CMS 15-18 | 3.01-20.00% | - | - | - | - |
| CMS 19 | 20.01-99.99% | - | - | - | - |
| CMS 20-23 | 100% | - | - | - | - |
| | | 100,474 | - | - | 100,474 |

At 31 December 2019

| Grade | PD range | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|-----------|--------------|------------------|------------------|------------------|----------------|
| CMS 1-10 | 0.00-0.50% | 102,617 | - | - | 102,617 |
| CMS 11-14 | 0.51-3.00% | - | - | - | - |
| CMS 15-18 | 3.01-20.00% | - | - | - | - |
| CMS 19 | 20.01-99.99% | - | - | - | - |
| CMS 20-23 | 100% | - | - | - | - |
| | | 102,617 | - | - | 102,617 |

21.2 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.

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

As at 31 December 2020

| | On demand £'000 | < 1 month £'000 | 1-3 months £'000 | 3-12 months £'000 | > 1 year £'000 | Total £'000 |
|--|--------------------|--------------------|---------------------|----------------------|-------------------|----------------|
| Bank borrowings | - | - | - | - | 80,839 | 80,839 |
| Interest payable | - | - | - | - | 3,333 | 3,333 |
| Amounts due to fellow group undertakings | 17,519 | - | - | - | - | 17,519 |
| Amounts due to parent undertakings | 9,669 | - | - | - | - | 9,669 |
| Taxation payable | - | - | - | 341 | - | 341 |
| | 27,188 | - | - | 341 | 84,172 | 111,701 |

Notes to the financial statements (continued)

For the year ended 31 December 2020

21. Financial risk management (continued)

21.2 Liquidity risk (continued)

As at 31 December 2019

| | On demand | < 1 month | 1-3 months | 3-12 months | > 1 year | Total |
|--|-----------|-----------|------------|-------------|----------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Bank borrowings | - | 83,268 | - | - | 82,961 | 166,229 |
| Interest payable | - | 28 | - | - | 3,420 | 3,448 |
| Amounts due to fellow group undertakings | 32,450 | - | - | - | - | 32,450 |
| Amounts due to parent undertakings | 8,910 | - | - | - | - | 8,910 |
| Taxation payable | - | - | - | 143 | - | 143 |
| | 41,360 | 83,296 | - | 143 | 86,381 | 211,180 |

21.3 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 both finance income by £nil (2019: £606,000) and finance costs by £nil (2019: £208,000).

21.4 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 immaterial amount primarily due to assets denominated in USD.

Foreign currency risk - carrying amount

| | 2020 \$000 | 2019 \$000 |
|------------------------------------|---------------|---------------|
| Amounts owed by group undertakings | 501 | 501 |
| Financial assets | 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 immaterial amount primarily due to assets denominated in EUR.

Foreign currency risk - carrying amount

| | 2020 €000 | 2019 €000 |
|------------------------------------|--------------|--------------|
| Amounts owed by group undertakings | 3,632 | 503 |
| Financial assets | 3,632 | 503 |

Notes to the financial statements (continued)

For the year ended 31 December 2020

21. Financial risk management (continued)

21.4 Foreign currency risk

Foreign currency risk - carrying amount

| | 2020 €000 | 2019 €000 |
|------------------------------------|--------------|--------------|
| Amounts owed to group undertakings | 3,567 | 789 |
| Financial liabilities | 3,567 | 789 |

22. Contingent liability

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 its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £44,277,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

23. Future developments

The following pronouncement is not applicable for the year ending 31 December 2020 and has not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at 31 December 2020 these pronouncements have been endorsed for use in the United Kingdom.

Interest Rate Benchmark Reform

The IASB's Phase 2 amendments in response to issues arising from the replacement of interest rate benchmarks in a number of jurisdictions are effective for annual periods beginning on or after 1 January 2021.

Under these amendments, an immediate gain or loss is not recognised in the income statement where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms, in addition, hedge accounting is continued for relationships that are directly affected by the reform.

These amendments are not expected to have a significant impact on the Company.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.

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 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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: Balance sheet as at 31 December 2020; Statement of comprehensive income, Statement of changes in equity and Cash flow statement 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to but were not limited to; any breaches of UK regulatory requirements, and compliance with new or amended tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act

2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manual elements of the control environment, such as journal entries, related party transactions and balances, and areas of significant judgement such as provisions and other critical accounting estimates. Audit procedures performed by the engagement team included:

- Audited the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, and auditing material related party transactions and balances;
- Held discussions with management and those charged with governance including making specific inquiries about any consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewed minutes of meetings of those charged with governance; and
- Incorporated an element of unpredictability into the nature, timing and/or extent of our audit procedures.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

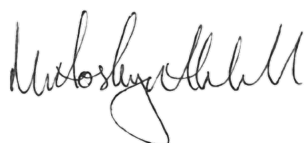
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained 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
20 August 2021