

## Isobel Loan Capital Limited

Annual report and financial statements for the year ended  
31 December 2016

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# **Isobel Loan Capital Limited**

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# **Isobel Loan Capital Limited**

## **Officers and professional advisors**

### **Directors**

Farhad Karim (appointed 18th July 2016)

Lorna Brown

Robert Harper (resigned 18th July 2016)

SFM Directors Limited (resigned 24th March 2016)

### **Registered office**

40 Berkeley Square

London

United Kingdom

W1J 5AL

### **Auditor**

Deloitte LLP

2 New Street Square

London

EC4A 3BZ

### **Manager**

The Blackstone Group International Partners

40 Berkeley Square

London

United Kingdom

W1J 5AL

# Isobel Loan Capital Limited

## Strategic report

### Background

Isobel Loan Capital Limited (the "Company") has been setup to act as a workout company for loans requiring restructuring that were initially held by Isobel AssetCo Limited.

### Principal activity

The principal activity of the Company is the acquisition and management of loans assets backed by mortgages.

### Strategy and objectives

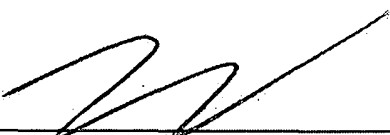
The Company is a wholly-owned subsidiary of Isobel Intermediate HoldCo Limited and its ultimate parent company is The Royal Bank of Scotland plc. There are no subsidiaries of the Company.

The loans are purchased at the estimated fair value of the loan at the date of transfer. The purchase of a loan is funded by the issue of a funding loan by Isobel AssetCo Limited and the loan from Isobel AssetCo Limited earns interest at 6.5% p.a. After the payment of the intercompany and loan interest, 99% of the net cash flows arising from each of the purchased loans accrue to Isobel AssetCo Limited.

The significant risks and rewards of ownership of all the assets remain with Isobel AssetCo Limited. It is therefore expected that any principal risks lie with Isobel AssetCo Limited as it would suffer any potential financial loss through the inability of the Company to repay its loan provided by it.

During the year the final loan positions were exited and all intercompany positions within Isobel AssetCo have been satisfied. Despite the current balance sheet position, the Company remains a going concern based on the support of Isobel AssetCo.

Approved by the Board and signed on its behalf by:

  
\_\_\_\_\_  
Farhad Karim  
Director

3<sup>rd</sup> August 2017

40 Berkeley Square  
London  
W1J 5AJ

# **Isobel Loan Capital Limited**

## **Directors report**

The directors present their report on the affairs of Isobel Loan Capital Limited (the "Company"), together with the financial statement and auditor's report for the year ended 31 December 2016.

### **Dividends**

The directors do not recommend the payment of a dividend for the period. (2015: None)

### **Directors**

The Directors, who served throughout the year were as follows:

- Farhad Karim (appointed 18th July 2016)
- Lorna Brown
- Robert Harper (resigned 18th July 2016)
- SFM Directors Limited (resigned 24th March 2016)

### **Directors indemnity**

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report.

### **Going concern**

During the year the last loan asset principle was repaid. As such, the activity of the Company now is managing the remaining resources towards resolution of the Company. Once orderly settlement of the Company's affairs has been achieved, the Directors will look to voluntarily liquidate the group, the timing of which is yet uncertain. Therefore the Company financial statements have been prepared on a basis other than going concern. There have been no adjustments made to the balance sheet from adopting a basis other than going concern.

### **Auditor**

Each director at the date of approval of this report confirms that:

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

# Isobel Loan Capital Limited

## Directors report

### Auditor (continued)

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office and arrangements are being made for Deloitte LLP to be reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:



Farhad Karim

Director

3rd August 2017

40 Berkeley Square  
London  
W1J 5AL

### **Directors responsibilities statement**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare 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 these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

## **Isobel Loan Capital Limited**

### **Independent auditor's report to the members of Isobel Loan Capital Limited**

We have audited the financial statements of Isobel Loan Capital Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Emphasis of matter - Financial statements prepared other than on a going concern basis**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of going concern.



## **Isobel Loan Capital Limited**

### **Independent auditor's report to the members of Isobel Loan Capital Limited**

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Garrath Marshall (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

*11 August 2017*

## Isobel Loan Capital Limited

### Statement of comprehensive income for the year ended 31 December 2016

	Notes	2016 £	2015 £
<b>Revenue</b>			
Interest income	6	1,564,779	1,822,219
Profit Allocation	7	944,976	10,435
<b>Total revenue</b>		<b>2,509,755</b>	<b>1,832,654</b>
<b>Other income</b>			
Bank interest		166	319
		<b>166</b>	<b>319</b>
<b>Operating expenses</b>			
Finance costs	11	(1,564,779)	(1,822,219)
Bad Debt Expense	18	(1,232,331)	-
<b>(Loss) / Profit before taxation</b>		<b>(287,189)</b>	<b>10,754</b>
Tax	16	(188,995)	(2,178)
<b>(Loss) / Profit for the year</b>		<b>(476,184)</b>	<b>8,576</b>
Other comprehensive income		-	-
<b>Total (loss) / profit for the year</b>		<b>(476,184)</b>	<b>8,576</b>

All income is derived from discontinued operations.

The notes on pages 12 - 22 form an integral part of the financial statements.

# Isobel Loan Capital Limited

## Balance sheet

As at 31 December 2016

Company Registration No. 07815722

	Note	2016 £	2015 £
<b>Non-current assets</b>			
Failed sale assets	12	-	26,291,416
		<u>-</u>	<u>26,291,416</u>
<b>Current assets</b>			
Cash and cash equivalents	17	-	3,351
Profit Allocation	7	-	653,568
		<u>-</u>	<u>656,919</u>
<b>Total Assets</b>		<u>-</u>	<u>26,948,335</u>
<b>Current liabilities</b>			
Accruals and amounts due to Related Party		<u>-</u>	<u>(131,006)</u>
<b>Net current assets</b>		<u>-</u>	<u>525,913</u>
<b>Non-current liabilities</b>			
Loan from related party	13	(2)	(26,341,143)
<b>Total liabilities</b>		<u>(2)</u>	<u>(26,472,149)</u>
<b>Net assets</b>		<u>(2)</u>	<u>476,186</u>
<b>Equity</b>			
Called up share capital	14	2	2
Retained earnings		-	476,184
<b>Total equity</b>		<u>2</u>	<u>476,186</u>

The notes on pages 12 - 22 form an integral part of the financial statements.

The statutory financial statements were approved by the directors and authorised for the issue on 5<sup>th</sup> August 2017 and were signed on its behalf by:

  
Farhad Karim  
Director

## Isobel Loan Capital Limited

### Statement of changes in equity

	Share capital	Retained earnings	Total equity
	£	£	£
Balance at 1 January 2015	2	467,608	467,610
Result for the year	-	8,576	8,576
<b>Balance at 31 December 2015</b>	<b>2</b>	<b>476,184</b>	<b>476,186</b>
Balance at 1 January 2016	2	476,184	476,186
Result for the year	-	(476,184)	(476,184)
<b>Balance at 31 December 2016</b>	<b>2</b>	<b>-</b>	<b>2</b>

The notes on pages 12 - 22 form an integral part of the financial statements.

## Isobel Loan Capital Limited

### Cash flow statement

for the year ended 31 December 2016

	Notes	2016 £	2015 £
<b>Cash flows from operating activities</b>			
Cash flows from operations	15	-	-
<b>Net cash flows from operating activities</b>		-	-
<b>Cash flows from investing activities</b>			
Cash received from loan repayment		188,553,029	5,270,863
Interest received		622,862	575,297
<b>Net cash from investing activities</b>		<b>189,175,891</b>	<b>5,846,160</b>
<b>Cash flows from financing activities</b>			
Repayment of long-term borrowings		(184,097,078)	(5,270,863)
Borrowing costs paid		(5,082,164)	(574,978)
<b>Net cash used in financing activities</b>		<b>(189,179,242)</b>	<b>(5,845,841)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(3,351)</b>	<b>319</b>
Net opening cash and cash equivalents		3,351	3,032
<b>Net closing cash and cash equivalents</b>		<b>-</b>	<b>3,351</b>

The notes on pages 12 - 22 form an integral part of the financial statements.

# Isobel Loan Capital Limited

## Notes to the financial statements for the year ended 31 December 2016

### 1) General information

Isobel Loan Capital Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

### 2) Adoption of new and revised Standards

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015 (except as noted below). Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Annual Improvements to IFRSs 2010 – 2012 Cycle (The amendments are effective in the EU for accounting periods beginning on or after 1 February 2015. However, earlier application is permitted so that companies applying IFRSs as adopted in the EU are able to adopt the amendments in accordance with the IASB effective date of 1 July 2014)	The Group has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2010 – 2012 Cycle for the first time in the current year. The amendments are in the nature of clarifications rather than substantive changes to existing requirements. The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.
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### New and revised IFRSs in issue but not yet effective

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
IAS 1 (amendments)	Disclosure Initiative
IAS 16 and IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (amendments)	Agriculture: Bearer Plants
IAS 27 (amendments)	Equity Method in Separate Financial Statements
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exemption
Annual Improvements to IFRSs:	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued

# **Isobel Loan Capital Limited**

## **Notes to the financial statements**

for the year ended 31 December 2016

### **3) Significant accounting policies**

#### **Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Company financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

#### **Going concern**

During the year the last loan asset principle was repaid. As such, the activity of the Company now is managing the remaining resources towards resolution of the Company. Once orderly settlement of the Company's affairs has been achieved, the Directors will look to voluntarily liquidate the group, the timing of which is yet uncertain. Therefore the Company financial statements have been prepared on a basis other than going concern. There have been no adjustments made to the balance sheet from adopting a basis other than going concern.

#### **Interest income**

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Finance costs**

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

#### **Financial assets**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value and subsequently re-measured to their fair value at the reporting date.

# **Isobel Loan Capital Limited**

## **Notes to the financial statements for the year ended 31 December 2016**

### **3) Significant accounting policies (continued)**

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The estimated future cash receipts used to calculate the effective interest rate, is based on the initial business plan the directors' adopted when the loan asset is purchased. These initial business plans may estimate that future cash will be received before or after legal maturity of the debt instrument, depending on the recovery strategy adopted.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

#### ***Loans and receivables (including Failed sale assets)***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### ***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.



# **Isobel Loan Capital Limited**

## **Notes to the financial statements for the year ended 31 December 2016**

### **3) Significant accounting policies (continued)**

#### ***Impairment of financial assets (continued)***

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

#### ***Derecognition of financial assets***

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### ***Financial liabilities and equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

#### ***Financial liabilities***

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### ***Other financial liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

# **Isobel Loan Capital Limited**

## **Notes to the financial statements for the year ended 31 December 2016**

### **3) Significant accounting policies (continued)**

#### ***Derecognition of financial liabilities***

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

#### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **Tax**

The tax expense represents the sum of the tax currently payable or receivable and deferred tax.

#### ***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the

#### **Failed sale asset**

A failed sale asset is recognised when legal ownership is transferred to the Company but where the significant risks and rewards of ownership remain with the selling entity. The failed sale asset is initially measured at the value of the consideration received. The asset is subsequently measured at amortised cost using the effective interest method, with interest income recognised on an effective yield basis.

# **Isobel Loan Capital Limited**

## **Notes to the financial statements**

for the year ended 31 December 2016

### **4) Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### ***Critical judgements in applying the Company's accounting policies***

The following are the critical judgements, including those involving estimations 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 financial statements.

### **5) Segment reporting**

The Company only has one business segment: Investment in loan assets which all originate in the United Kingdom. The directors consider all the relevant information relating to the primary segment disclosed in these financial statements.

# Isobel Loan Capital Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 6) Interest revenue

An analysis of the Company's interest revenue is as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Interest revenue on failed sale assets	<b><u>1,564,779</u></b>	<b><u>1,822,219</u></b>

Interest revenue from loans is recognised using the effective interest method as described in Note 3 and 4.

### 7) Profit Allocation

With the acquisition of loan assets from Isobel Assetco Limited an intercompany loan was created. This includes an element of deferred consideration such that 99% of the profits of the loan ((i.e. interest income, fees and principal repayments of the 3rd party loan less Interco loan interest expense and repayment less other associated costs (e.g. management fee)) are transferred to Isobel Assetco and 1% retained by the Company.

### 8) Auditors' remuneration

The audit fee of £20,000 is borne by Isobel AssetCo Limited.

### 9) Staff costs

The Company does not have any employees and no director received any remuneration during the year (2015: none).

### 10) Dividends

The directors do not recommend the payment of a dividend for the year (2015: none).

### 11) Finance costs

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<i>Borrowing costs on secured borrowings:</i>		
Interest on related party loan	<b><u>1,564,779</u></b>	<b><u>1,822,219</u></b>

### 12) Failed sale assets

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Failed sale asset	<b><u>-</u></b>	<b><u>26,291,416</u></b>

The amount reported under failed sale assets is the net present value of the expected future cash flows discounted at the effective interest rate. The expected future cash flows the company is entitled to are directly linked to the financing costs and other expenses incurred by the entity in restructuring and realising the underlying loan assets.

# Isobel Loan Capital Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 13) Loan from related party

**2016**

**2015**

£

£

#### Non-current borrowings

*Secured borrowings at amortised cost*

Loans

**2**

**26,341,143**

All borrowings are denominated in Pound sterling.

Prior year balance related to loans from Isobel AssetCo Limited, bearing interest at 6.5% p.a. With the repayment of the remaining loans held by the Company, the intercompany loan were repaid alongside all accrued interest.

### 14) Share capital

**2016**

**2015**

£

£

Authorised, issued and fully paid - 2 shares of £1

**2**

**2**

The Company has one class of ordinary shares.

### 15) Notes to the cash flow statement

**2016**

**2015**

£

£

(Loss) / Profit for the year

(287,189)

10,754

*Adjustments for:*

Interest revenue

(2,509,755)

(1,832,654)

Bank interest expense

(166)

(319)

Finance costs

1,564,779

1,822,219

Bad Debt Expense

1,232,331

-

**Net cash flow from operating activities**

**-**

**-**

## Isobel Loan Capital Limited

### Notes to the financial statements

for the year ended 31 December 2016

<b>16) Tax charge</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Current taxation		
UK corporation tax for the year	<u><b>(188,995)</b></u>	<u><b>(2,178)</b></u>
A reconciliation of the total tax expense is as follows:	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>(Loss) / profit before tax</b>	<b>(287,189)</b>	<b>10,754</b>
Tax loss / (charge) calculated at UK domestic tax rate of 20.0% (2015: 20.25%)	57,438	(2,178)
<b>Tax effect of:</b>		
Non-deductible expenses for tax purposes	<u><b>(246,433)</b></u>	<u>-</u>
<b>Tax expense for the year</b>	<u><b>(188,995)</b></u>	<u><b>(2,178)</b></u>

The effective tax rate of 20.00% (2015: 20.25%) per cent is equal to the blended standard rate of corporation tax in the UK over the accounting period. The tax expense includes recognition of the total profit due.

<b>17) Cash and cash equivalents</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Cash and bank balances	<u>-</u>	<u><b>3,351</b></u>

All cash has left the Company through the resolution of intercompany positions with Isobel AssetCo Limited.

#### **18) Bad Debt Forgiveness**

During the year the Company has released debtors due from Isobel AssetCo Limited in relation to the 1% profit allocation.

#### **19) Financial instruments**

##### **Capital risk management**

The Company now has no capital risk due to repayment of remaining loans in the year. The Company's strategy has shifted to the successful resolution of the Company and Group.

The Company is not subject to any externally imposed capital requirements.

##### **Financial risk management objectives**

The Company monitors and manages financial risks relating to the operations of the Company. These risks include market risk, credit risk and liquidity risk.

##### **Market risk**

The main purpose of the Company was to hold restructured loan assets that were initially owned by Isobel Assetco Limited, a related entity. These loans are sold to the Company at the net present value of the loan at the transfer date. As the significant rewards of ownership of these loan assets remain with the selling entity, Isobel Assetco Limited, and the fact that the two entities are under the same management control, the Company relies on the risk management procedures implemented by Isobel Assetco Limited.

# Isobel Loan Capital Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 18) Financial instruments (continued)

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. With the Company's loan assets and associated receivables all now received the risk involved is sated.

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company's ongoing operating expenses will be covered through by Isobel AssetCo Limited, who the directors are confident has enough resources.

Under the terms of the shareholder and other associated agreements, the Company has the ability to request additional loans from its shareholders and third parties as required.

The following table details the Company's remaining contractual maturity for its financial liabilities with agreed repayment periods. Sufficient cash reserves are held to cover these expenses.

	Reported value	Interest rate	0 - 1 year	1 - 5 years	5+ years	Total
<b>2016</b>						
Fixed interest rate instruments	2	6.50%	-	2	0	2
	<u>2</u>		<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>
	Reported value	Interest rate	0 - 1 year	1 - 5 years	5+ years	Total
<b>2015</b>						
Fixed interest rate instruments	26,341,143	6.50%	-	26,341,143	-	26,341,143
	<u>26,341,143</u>		<u>-</u>	<u>26,341,143</u>	<u>-</u>	<u>26,341,143</u>

**Notes to the financial statements**

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**19) Related Parties**

The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. Its shareholding is managed by UK Financial Investments Limited, a company it wholly owns and as a result, the UK Government and UK Government controlled bodies are related parties of the company.

The Company enters into transactions with these bodies on an arms' length basis; they include the payment of: taxes including UK corporation tax and value added tax.

The Company's ultimate holding company is The Royal Bank of Scotland Group plc. which is incorporated in the United Kingdom and registered in Scotland. Its immediate parent company is Isobel Intermediate Holdco Limited which is incorporated in the United Kingdom and registered in England and Wales.

The Royal Bank of Scotland Group plc. heads the largest group in which the Company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc., Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

Isobel HoldCo Limited heads the smallest group in which the Company is consolidated.

The following table represents a summary of transactions that occurred during the reported period with other companies within the Isobel HoldCo Limited Group of companies:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Profit Allocation Income	944,976	10,435
Interest Expense	(1,564,779)	(1,822,219)
Interest paid	(5,082,164)	(574,978)

The following balances are outstanding as at the year end:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Profit Allocation Receivable	-	653,568
Interest Payable	-	(3,517,383)
Loan Payable	-	(22,823,760)

All of the above transactions occurred between the Company and Isobel AssetCo Limited.

**20) Events after the reporting period**

Since the end of the period, the directors of the Company are not aware of any other matter or circumstance not otherwise dealt with in the financial report or the directors report that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in financial years subsequent to the year ended 31 December 2016.