



LLOYDS LEASING (NORTH SEA TRANSPORT) LIMITED

Annual report and financial statements for the year ended 31 December 2017

Member of Lloyds Banking Group

Registered Number: 01107543



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COMPANIES HOUSE

LLOYDS LEASING (NORTH SEA TRANSPORT) LIMITED

DIRECTORS

C G Dowsett
G A Fox
A J Kemp

COMPANY SECRETARY

A E Mulholland

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

BANKERS

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

01107543

DIRECTORS' REPORT

The directors present their report and audited financial statements for Lloyds Leasing (North Sea Transport) Limited ("the company") for the year ended 31 December 2017.

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

REVIEW OF BUSINESS

During the year, the principal activity of the company was the holding of investments in limited partnerships and this is likely to continue for the foreseeable future.

The results of the company show a profit before taxation of £1,908,000 (2016: £1,000,000) for the year as set out in the statement of comprehensive income on page 6.

The company has shareholder's equity of £32,046,000 (2016: £30,672,000).

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2016: £nil).

DIRECTORS

The names of the directors of the company who were in office during the year and up to the date of the signing of financial statements are shown on page 1. The following changes in directors have taken place during the year and since the year end:

| | Appointed | Resigned/ceased to be a director |
|----------|----------------|-------------------------------------|
| A J Kemp | 9 January 2017 | - |

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' 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 prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 Act. 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.

In accordance with Section 418 of the Act, 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
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the directors of the company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Act. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors' and officers' liability insurance cover which was in place throughout the financial year.

DIRECTORS' REPORT (CONTINUED)

INDEPENDENT AUDITORS' APPOINTMENT

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

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. For further details please refer to note 9 'Risk management of financial instruments' in these financial statements.

KEY PERFORMANCE INDICATORS ('KPIs')

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

On behalf of the board



C G Dowsett
Director

Date: 28/03/2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS LEASING (NORTH SEA TRANSPORT) LIMITED

Report on the Financial Statements

Opinion

In our opinion, Lloyds Leasing (North Sea Transport) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2017; the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS LEASING (NORTH SEA TRANSPORT) LIMITED (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

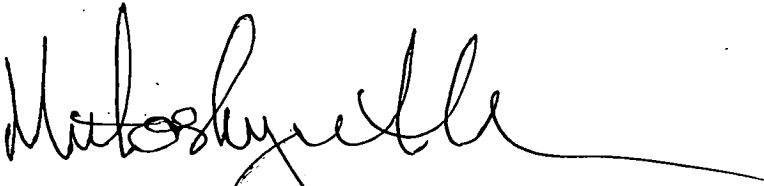
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

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



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

Edinburgh

Date: 29/03/2018

LLOYDS LEASING (NORTH SEA TRANSPORT) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

| | Note | 2017 £000 | 2016 £000 |
|---|------|---------------------|-------------------|
| Reversal of impairment | 2 | <u>1,908</u> | <u>1,000</u> |
| Profit before taxation | 3 | 1,908 | 1,000 |
| Taxation charge | 4 | <u>(534)</u> | <u>(369)</u> |
| Profit after taxation and total comprehensive income for the year attributable to owners of the parent | | <u><u>1,374</u></u> | <u><u>631</u></u> |

The accompanying notes on pages 10 to 16 are an integral part of the Financial Statements.

LLOYDS LEASING (NORTH SEA TRANSPORT) LIMITED

BALANCE SHEET
As at 31 December 2017

| | Note | 2017 £000 | 2016 £000 |
|-------------------------------------|------|---------------|---------------|
| Assets | | | |
| Non-current assets | | | |
| Investment in partnerships | 5 | 70,390 | 68,482 |
| Deferred taxation | 7 | <u>80</u> | <u>2</u> |
| Total non-current assets | | <u>70,470</u> | <u>68,484</u> |
| Total assets | | <u>70,470</u> | <u>68,484</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Amounts owed to group companies | 6 | <u>38,424</u> | <u>37,812</u> |
| Total current liabilities | | <u>38,424</u> | <u>37,812</u> |
| Equity | | | |
| Share capital | 8 | 5 | 5 |
| Retained earnings | | <u>32,041</u> | <u>30,667</u> |
| Total equity | | <u>32,046</u> | <u>30,672</u> |
| Total liabilities and equity | | <u>70,470</u> | <u>68,484</u> |

The financial statements on pages 6 to 16 were approved by the Board of Directors on 28/03/2018 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 01107543

The accompanying notes on pages 10 to 16 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

| | | Share capital | Retained earnings | Total equity |
|--|------|------------------|----------------------|-----------------|
| | Note | £000 | £000 | £000 |
| Balance at 31 December 2015 | | 5 | 30,036 | 30,041 |
| Total comprehensive income for the year | | | | |
| Profit for the year | | - | 631 | 631 |
| Balance at 31 December 2016 | 8 | 5 | 30,667 | 30,672 |
| Total comprehensive income for the year | | | | |
| Profit for the year | | - | 1,374 | 1,374 |
| Balance at 31 December 2017 | 8 | <u>5</u> | <u>32,041</u> | <u>32,046</u> |

The accompanying notes on pages 10 to 16 are an integral part of the Financial Statements.

LLOYDS LEASING (NORTH SEA TRANSPORT) LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2017

| | Note | 2017 £000 | 2016 £000 |
|---|------|------------------------|------------------------|
| Profit before taxation | | 1,908 | 1,000 |
| Add non-cash items: | | | |
| Reversal of impairment | | <u>(1,908)</u> | <u>(1,000)</u> |
| Cash generated by operations | | - | - |
| Tax paid | | <u>(359)</u> | <u>(170)</u> |
| Net cash outflow from operating activities | | <u>(359)</u> | <u>(170)</u> |
| Net decrease in cash and cash equivalents | | (359) | (170) |
| Cash and cash equivalents at beginning of the year | | <u>(15,783)</u> | <u>(15,613)</u> |
| Cash and cash equivalents at end of the year | | <u><u>(16,142)</u></u> | <u><u>(15,783)</u></u> |
| Cash and cash equivalents are comprised of: | | | |
| Bank overdraft | 6 | <u>(16,142)</u> | <u>(15,783)</u> |
| | | <u><u>(16,142)</u></u> | <u><u>(15,783)</u></u> |

The accompanying notes on pages 10 to 16 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

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

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention.

The financial statements have been prepared in accordance with Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006.

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continuing financial support provided by Lloyds Bank plc. After making appropriate enquiries, the directors believe it is appropriate for the financial statements to be prepared on the going concern basis.

Intermediate parent undertaking

These separate financial statements contain information about Lloyds Leasing (North Sea Transport) Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption under IAS 27 (revised), 'Consolidated and separate financial statements', from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its parent, Lloyds Bank plc.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

- Impairment

The company regularly reviews the portfolio of financial assets for impairment. In determining whether an impairment has occurred at the balance sheet date the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on repayments or values of underlying assets. Where this is the case, the impairment loss is measured in accordance with note 1(b) below.

1(a) Investment in limited partnerships

Income from investments in limited partnerships is recognised in accordance with the partnership agreement. Distributions in excess of partnership profits are treated as a reduction of partnership investment.

1(b) Impairment

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and/or interest;
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty;
- Restructuring of debt to reduce the burden on the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's implicit rate in the lease.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as a credit to the statement of comprehensive income.

1(c) Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1(c) Taxation (continued)

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. Deferred tax related to fair value re-measurement of financial assets and liabilities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of comprehensive income together with the deferred gain or loss.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1(d) Dividends

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

1(e) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months.

1(f) 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 Reversal of impairment

| | 2017 £000 | 2016 £000 |
|------------------------|--------------|--------------|
| Reversal of impairment | <u>1,908</u> | <u>1,000</u> |

Following impairment review, the carrying value of the investment in Kanaalstraat C.V was increased back to its historical cost reflecting an increase in the underlying share of net assets in the company.

3 Profit before taxation

Audit fees for the company are borne by the ultimate parent company, which makes no recharge to the company.

The company has no employees (2016: nil).

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Taxation charge

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| The taxation charge for the year comprises: | | |
| Current tax payable on profit for the year | <u>(612)</u> | <u>(359)</u> |
| Total current payable for the year | (612) | (359) |
| Deferred taxation | 79 | (11) |
| Impact of tax rate change | <u>(1)</u> | <u>1</u> |
| Total taxation charge for the year | <u>(534)</u> | <u>(369)</u> |

Where taxation on the company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 19.25% (2016: 20.00%), the differences are explained below:

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Profit before taxation | <u>1,908</u> | <u>1,000</u> |
| Tax at standard rate of corporation tax | (367) | (200) |
| Impact of rate change | (1) | 1 |
| Permanent difference on partnership profit | (533) | (370) |
| Reversal of impairment | <u>367</u> | <u>200</u> |
| Total taxation charge | <u>(534)</u> | <u>(369)</u> |

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

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

5 Investment in partnerships

| | 2017 £000 | 2016 £000 |
|--------------------------|---------------|---------------|
| At beginning of the year | 68,482 | 67,482 |
| Reversal of impairment | <u>1,908</u> | <u>1,000</u> |
| At end of the year | <u>70,390</u> | <u>68,482</u> |

This represents the company's investment, at cost, of a 99.9% interest as limited partner in Kanaalstraat Funding CV, a Dutch limited partnership which carries on business as a lessor of plant and equipment. The results of limited partnerships are consolidated in the group financial statements of Lloyds Banking Group plc, which has a financial year end of 31 December 2017.

The company (as Limited Partner) is entitled to a percentage of the profits from its investment in the limited partnership, as defined in the partnership agreement. The share of retained profit in the partnership amounted to £424,000 (2016: £37,000 loss).

Following impairment review, the carrying value of the investment in Kanaalstraat C.V was increased back to its historical cost reflecting an increase in the underlying share of net assets in the company.

6 Amounts owed to group companies

| | 2017 £000 | 2016 £000 |
|--|---------------|---------------|
| Amounts due to fellow group subsidiaries | 21,670 | 21,670 |
| Tax payable | 612 | 359 |
| Bank overdraft | <u>16,142</u> | <u>15,783</u> |
| | <u>38,424</u> | <u>37,812</u> |

For further details please refer to note 10

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Deferred taxation

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Financial assets which are neither past due nor impaired for credit risk: | | |
| At beginning of the year | 2 | 12 |
| Deferred taxation charge for the year | 79 | (11) |
| Impact of tax rate change on deferred taxation charge for the year | (1) | 1 |
| At end of the year | <u>80</u> | <u>2</u> |

The deferred taxation (credit)/charge in the statement of comprehensive income comprises the following:

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Accelerated tax depreciation | (79) | 11 |
| Impact of tax rate change | <u>1</u> | <u>(1)</u> |
| Total deferred taxation (credit)/charge | <u>(78)</u> | <u>10</u> |

Deferred taxation assets are comprised as follows:

| | 2017 £000 | 2016 £000 |
|--------------------------------|--------------|--------------|
| Deferred taxation assets | | |
| Accelerated tax depreciation | 69 | (11) |
| Accelerated capital allowances | <u>11</u> | <u>13</u> |
| Total deferred assets | <u>80</u> | <u>2</u> |

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

8 Share capital

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Allotted, issued and fully paid: 5,000 Ordinary shares of £1 each | <u>5</u> | <u>5</u> |

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)

9 Risk management of financial instruments

The primary financial risks affecting the company are: credit risk, liquidity risk and market risk (which include interest rate risk and foreign currency risk). Information on the management of these financial risks and further disclosures is given below.

Credit risk management:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

There is no credit risk exposure to the company in the current or prior periods.

Liquidity risk management:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

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

| At 31 December 2017 | Tax payable £000 | Bank overdraft £000 | Bank borrowings £000 | Total Liabilities £000 |
|---------------------|---------------------|------------------------|-------------------------|---------------------------|
| On demand | 612 | 16,142 | 21,670 | 38,424 |
| Up to 1 month | - | - | - | - |
| 1-3 months | - | - | - | - |
| 3-12 months | - | - | - | - |
| 1-5 years | - | - | - | - |
| Over 5 years | - | - | - | - |
| Total | 612 | 16,142 | 21,670 | 38,424 |
| At 31 December 2016 | Tax payable £000 | Bank overdraft £000 | Bank borrowings £000 | Total Liabilities £000 |
| On demand | 359 | 15,783 | 21,670 | 37,812 |
| Up to 1 month | - | - | - | - |
| 1-3 months | - | - | - | - |
| 3-12 months | - | - | - | - |
| 1-5 years | - | - | - | - |
| Over 5 years | - | - | - | - |
| Total | 359 | 15,783 | 21,670 | 37,812 |

Bank borrowings and the associated interest payable upon them are borrowed short term and all borrowings are advanced by a fellow subsidiary undertaking of Lloyds Banking Group plc.

The fair value of current liabilities approximates their carrying values.

Interest rate risk management:

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

The company has no exposure to variable rate financial assets and liabilities.

Foreign currency risk:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Related parties

The company's immediate parent company is Lloyds Bank Leasing Limited. 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. Lloyds Bank 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 page 1 of these financial statements.

In respect of related party transactions, the outstanding balances payable at 31 December were as follows:

| Nature of transaction | Related party | Related party relationship | 2017 | 2016 | Terms and conditions | |
|--------------------------------|---------------------------|-------------------------------|----------|----------|----------------------|----------|
| | | | £000 | £000 | Repayment | Interest |
| Amounts due to group companies | Kanaalstraat Funding C.V. | Fellow subsidiary undertaking | (21,670) | (21,670) | No fixed date | N/A |
| Tax payable | Bank of Scotland plc | Fellow subsidiary undertaking | (612) | (359) | No fixed date | N/A |
| Bank overdraft | Lloyds Bank plc | Ultimate parent undertaking | (16,142) | (15,783) | No fixed date | N/A |

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

The company paid tax of £359,433 (2016: £170,450 paid) during the year to fellow subsidiary undertakings.

The registered offices of related parties are noted below:

Related party

Kanaalstraat Funding C.V.
Bank of Scotland plc
Lloyds Bank plc

Registered address

De Entree 254, 1101 EE, Amsterdam, Netherlands
The Mound, Edinburgh, EH1 1YZ
25 Gresham Street, London EC2V 7HN

11 Adopted accounting standards

There were no new accounting standards adopted by the company during the year.

12 Future developments

The following pronouncements are not applicable for the year ended 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Group.

Pronouncement

IFRS 9: 'Financial Instruments'

Nature of change

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods.

IASB effective date

Annual periods beginning on or after 1 January 2018

Classification and measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Future developments (continued)

| <u>Pronouncement</u> | <u>Nature of change</u> | <u>IASB effective date</u> |
|---------------------------------|---|---|
| IFRS 9; 'Financial Instruments' | The full impact of this pronouncement is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements. | Annual periods beginning on or after 1 January 2018 |
| IFRS16; 'Leases' | IFRS 16 replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. Lessor accounting requirements remain aligned to the current approach under IAS 17. | Annual periods beginning on or after 1 January 2019 |