Company Registration No. 05718481

# Gresham Receivables (No. 11) UK Limited

## Annual Report and Financial Statements

## For the year ended 31 December 2017

**Gresham Receivables (No. 11) UK Limited**

**Annual report and financial statements 2017**

**Contents** | **Page**

**Gresham Receivables (No. 11) UK Limited**
**Annual report and financial statements 2017**
**Officers and professional advisers**

**Directors**
Mignon Clarke-Whelan
Daniel Wynne (appointed 20 April 2017)
Mark Filer (resigned 20 April 2017)
Wilmington Trust SP Services (London) Limited

**Secretary**
Wilmington Trust SP Services (London) Limited

**Bankers**
The Bank of New York Mellon
One Canada Square
London
E14 5AL

**Registered office**
C/O Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
EC2R 7AF

**Auditor**
Deloitte LLP
Statutory Auditors
1 Little New Street
London
EC4A 3TR

**Gresham Receivables (No. 11) UK Limited**

**Strategic report**

**Principal activities and review of the business**

Gresham Receivables (No. 11) UK Limited (the "Company") , a limited Company, was formed on 22 February 2006. The Company is a special purpose vehicle sponsored by Lloyds Bank plc which purchases investments backed by eligible receivables. These are funded through borrowings from Cancara Asset Securitisation Limited, Lloyds Bank plc or Bank of Scotland plc. The borrowings are collateralized by the purchased assets.

Cancara Asset Securitisation Limited is a special purpose vehicle in a conduit programme (the "Programme") sponsored by Lloyds Bank plc, which issues United States of America Commercial Paper and European Commercial Paper, the proceeds of which are advanced to associated purchaser companies which in turn acquire financial assets.

Shortly after formation, the Company entered into several agreements including an Administration Agreement and a Commissioning Agreement. Pursuant to the original agreements and subsequent amendments, the Company engaged Lloyds Bank plc to provide administration, structuring, documenting, monitoring and surveillance services. Lloyds Bank plc is compensated as Administrative Agent. Wilmington Trust SP Services (London) Limited provides corporate administration services to the Company pursuant to a corporate services agreement, for which it receives compensation.

In December 2016, the Programme's rating was reaffirmed as A-1sf by Standard & Poor's. In December 2016, the Programme's rating was reaffirmed as P-1sf by Moody's. In December 2016, the Programme's rating was reaffirmed as F1sf by Fitch Ratings. No program amendments were made in 2017 and no rating affirmations were issued since December 2016.

Lloyds Bank plc and Bank of Scotland plc provide full support liquidity facilities which may be drawn as an alternative or alongside the issuance of commercial paper by Cancara Asset Securitisation Limited.

The Directors have received assurances from Lloyds Bank plc of its continued support of the Company, during any dormancy, to meet future working capital needs and that it will actively continue to identify new customer transactions which could be funded through the Company as part of the program. The Directors have a reasonable expectation therefore that the Company has access to adequate resources to continue in operational existence for at least twelve months from the date of signing of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

**Future prospects**

The Administrative Agent has actively continued to identify new customer transactions which could be funded through the Programme.

**Gresham Receivables (No. 11) UK Limited**

**Strategic report (continued)**

**Results and key performance indicators**

The profit for the year was $1,351 (2016: $1,230). The directors propose the payment of a dividend of $1,351 (2016: $1,230).

The key performance indicator for the Company is the performance of the investments held which is measured through the impairment of the investments. The investments continue to perform satisfactorily and there are $nil impairment on the Company's investments at year-end (2016: $nil).

**Principal risks and uncertainties**

The Company's principal exposures to risk arise from its financial instruments held. The Company's financial instruments comprise principally amounts due from investments. Cash, accrued interest income, accrued interest payable and other items arise directly from the Company's operations. Further detail on financial instruments and their associated risks has been included in the notes to the financial statements.

**Going concern**

The financial statements have been prepared on a going concern basis. The Company has the benefit of a committed limited recourse liquidity facility with Lloyds Bank plc which can be drawn down in the event that Cancara Asset Securitisation Limited is unable to issue commercial paper and therefore provide funding for the Company.

Approved by the Board of Directors and signed on behalf of the Board

**Daniel Wynne for Wilmington Trust SP Services (London) Limited**
Company Secretary
12 July 2018

**Gresham Receivables (No. 11) UK Limited**

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

### Subsequent events

There have been no subsequent events of note post year end.

### Results, dividends and transfers to reserves

As referenced in the strategic report, the profit for the year was \$1,351 (2016: \$1,230). The directors propose the payment of a dividend of \$1,351 (2016: \$1,230). Dividends are not paid during the year they are proposed.

### Directors and their interests

The following directors held office throughout the year and subsequently:
Mignon Clarke-Whelan
Daniel Wynne (appointed 20 April 2017)
Mark Filer (resigned 20 April 2017)
Wilmington Trust SP Services (London) Limited

Third party indemnity provisions for the benefit of the directors were in force during the period under review and remain in force as at the date of approval of the annual reports and financial statements.

**Auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

The Company has elected to dispense with the obligation to appoint an auditor annually and, accordingly, Deloitte LLP will be the auditor of the Company for the forthcoming financial year under the provisions of section 386(2) of the Companies Act 2006. The strategic report discloses future prospects and financial risk management objectives and policies (as part of principal risk and uncertainties).

Approved by the Board of Directors and signed on behalf of the Board

**Daniel Wynne for Wilmington Trust SP Services (London) Limited**
Company Secretary
12 July 2018

**Gresham Receivables (No. 11) UK Limited**

**Directors' responsibilities statement**

The directors are responsible for preparing 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Independent auditor's report to the members of Gresham Receivables (No.11) U.K. Limited**

**Report on the audit of the financial statements**

**Opinion**
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31/12/2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Gresham Receivables (No.11) U.K. Limited (the 'company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- and the related notes 1 to 11.

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.

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**
We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

**Other information**
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

**Responsibilities of directors**
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, and for such internal control as the directors 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.

**Auditor's 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 auditor's 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Use of our report**
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.

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:

- the information given in [the strategic report and] the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**
Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Simon Stephens FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
12 July 2018

**Gresham Receivables (No. 11) UK Limited**

**Statement of comprehensive income**

**For the year ended 31 December 2017**

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Interest income (note 4) | **5,469,748** | 4,707,592 |
| Fee and other income (note 4) | **4,034,181** | 4,549,675 |
| Total income | **9,503,929** | 9,257,267 |
| Interest expense (note 5) | **5,439,090** | 4,053,934 |
| Non-interest expenses | **4,063,166** | 5,201,796 |
| Total expenses | **9,502,256** | 9,255,730 |
| Net profit before taxes | **1,673** | 1,537 |
| Income tax expense (note 9) | **322** | 307 |
| Comprehensive income | **1,351** | 1,230 |

All activities in the current and preceding year relate to continuing activities.

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

**Gresham Receivables (No. 11) UK Limited**

**Statement of financial position**

**As at 31 December 2017**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Cash and cash equivalents | - | 290,793 |
| Accrued interest and fees receivable | 258,197 | 353,537 |
| Loans and receivables (note 4) | 275,500,000 | 639,977,273 |
| Other assets | 2,009,509 | 1,958,115 |
| | 277,767,706 | 642,579,718 |
| **Liabilities and equity** | | |
| **Liabilities** | | |
| Cash overdraft | 7,957,242 | - |
| Accounts payable and accrued liabilities | 177,550 | 231,442 |
| Advances from liquidity provider (note 5) | 216,840,909 | 639,977,273 |
| Advances from issuer Company (note 5) | 52,790,652 | 2,369,771 |
| | 277,766,353 | 642,578,486 |
| **Equity** | | |
| Called up share capital (note 7) | 2 | 2 |
| Retained earnings | 1,351 | 1,230 |
| **Shareholders' funds** | 1,353 | 1,232 |
| | 277,767,706 | 642,579,718 |

These financial statements of Gresham Receivables (No. 11) UK Limited, registration number 05718481, were approved and authorised for issue by the Board of Directors on 12 July 2018.

Signed on behalf of the Board of Directors

Daniel Wynne for Wilmington Trust SP Services (London) Limited
Director

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

**Gresham Receivables (No. 11) UK Limited**

**Statement of changes in equity**

**For the year ended 31 December 2017**

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Shareholders' funds, beginning of year | **1,232** | 1,484 |
| Comprehensive income | **1,351** | 1,230 |
| Dividends | **(1,230)** | (1,482) |
| Shareholders' funds, end of year | **1,353** | 1,232 |

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

**Gresham Receivables (No. 11) UK Limited**

**Statement of cash flow**

**For the year ended 31 December 2017**

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Interest and fee revenues received | **9,599,269** | 9,222,405 |
| Interest paid | **(5,486,442)** | (3,873,923) |
| Non-interest expenses paid | **(4,121,422)** | (5,255,778) |
| Net cash (used in) from operating activities | **(8,595)** | 92,704 |
| **Investing activities** | | |
| Net collection of loans and receivables | **364,477,273** | 228,792,653 |
| Net cash from investing activities | **364,477,273** | 228,792,653 |
| **Financing activities** | | |
| Net repayment to liquidity provider | **(423,136,364)** | (868,660,751) |
| Net advances from issuer | **50,420,881** | 639,977,273 |
| Dividends | **(1,230)** | (1,482) |
| Net cash used in financing activities | **(372,716,713)** | (228,684,960) |
| Net (decrease) increase in cash during the year | **(8,248,035)** | 200,397 |
| Cash, beginning of year | **290,793** | 90,396 |
| **(Overdraft) cash, end of year** | **(7,957,242)** | 290,793 |

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

## 1. Organisation

Gresham Receivables (No. 11) UK Limited (the "Company") is a limited Company which was incorporated on 22 February 2006. The Company is a private limited company limited by shares. The Company is a special purpose vehicle sponsored by Lloyds Bank plc which purchases investments backed by eligible receivables. These are funded through borrowings from Cancara Asset Securitisation Limited, Lloyds Bank plc or Bank of Scotland plc. The borrowings are collateralized by the purchased assets.

Shortly after formation, the Company entered into several agreements including an Administration Agreement and a Commissioning Agreement. Pursuant to the original agreements and subsequent amendments, the Company engaged Lloyds Bank plc to provide administration, structuring, documenting, monitoring and surveillance services. Lloyds Bank plc is compensated as Administrative Agent. Wilmington Trust SP Services (London) Limited provides corporate administration services to the Company pursuant to a Corporate Services Agreement, for which it receives compensation.

The registered office of the Company is C/O Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF. The Company registration number is 05718481.

## 2. Significant Accounting policies

### Functional and reporting currency

The functional and reporting currency of the Company is the United States Dollar.

### Statement of Compliance

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements have been prepared under the historical cost convention and have been prepared on a going concern basis.

The accounting policies set out below were consistently applied throughout the entire period and are based on IFRSs issued and effective as of 31 December 2017 as adopted by the EU.

2. **Significant Accounting policies (continued)**

**Future accounting changes**

We are currently assessing the impact of adopting the following standard on our financial statements:

IFRS 9, *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39").

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at Fair Value Through the Profit and Loss, fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit and loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

IFRS 9 will be effective for the Company no later than January 1, 2018.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and is effective for annual periods beginning on or after 1 January 2018. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. This is not expected to have any material impact on the Company.

2. **Significant Accounting policies (continued)**

IFRS 16, *Leases* ("IFRS 16")

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. This is not expected to have any material impact on the Company.

**Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the reporting period. However, actual results could differ from those estimates. The most significant estimate for the Company is the value and collectability of the loans and receivables, which is further discussed in note 3 and 4. Management is also required to make critical judgments in preparation of these financial statements.

**Cash and cash equivalents**

Cash and cash equivalents consist of amounts on deposit, overdrafts are liabilities. Due to the short-term nature, carrying value of cash and cash equivalents approximate their fair values.

**Loans and receivables**

Eligible receivables purchased by the Company are classified as loans and receivables. The loans and receivables are initially measured at the amount of the advance being fair value and subsequently measured at amortised cost. The primary sources of the Company's revenues are finance charges on the eligible receivables and fees due from originators in connection with its activities. Interest and fee revenues are recognized on a straight-line basis over the related funding period which approximates the effective interest method due to their short-term maturities.

**Impairment**

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

2. **Significant Accounting policies (continued)**

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. The carrying amount of the financial asset is reduced by the impairment loss directly.

**Advances from issuer Company**

Borrowings from Cancara Asset Securitisation Limited under a commissioning agreement are at amortized cost. Interest expense is recorded on an accrual basis. The interest incurred on advances from the issuer Company is recorded as interest expense on a straight-line basis over the term of the advances which approximates the effective interest method due to their short-term maturities.

**Foreign currency translation**

Assets and liabilities in foreign currencies are translated into United States dollars at year-end rates. Revenues and expenses in foreign currencies are translated into United States dollars at the rate at the date of transaction. Realized and unrealized gains from foreign currency translation are included in interest expense in the Statement of comprehensive income.

**Capital management**

The Company's capital is comprised of nominal equity. The Company is structured so that the assets are expected to provide the Company with a return sufficient to pay its obligations under the short-term financing and expenses incurred.

The financial statements have been prepared on a going concern basis. The Company has the benefit of a committed limited recourse liquidity facility with Lloyds Bank plc which can be drawn down in the event that Cancara Asset Securitisation Limited is unable to issue commercial paper and therefore provide the funding for the Company.

In the event that Lloyds Bank plc was not to renew its commitments whilst a transaction is outstanding, the available facility amount could be drawn in full by the Company to ensure it remains in a position to meet obligations under the transaction. Under the terms of the liquidity facility agreements, the Company is only obliged to repay the drawn down amount from the facility to Lloyds Bank plc to the extent that it has funds available for such purpose.

The eligible assets are structured to incorporate credit enhancement to mitigate a stressed level of defaults in the underlying assets. In the event that the performance of the assets held deteriorates, triggers are in place which provide for draws on their committed limited recourse liquidity facilities.

## 2. Significant Accounting policies (continued)

### Income Taxes

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively been enacted by the statement of financial position date. Deferred tax is recognised in respect of all timing differences that have originated but not realised at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date.

The Company's taxable profits are calculated in accordance with the *Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)* and disclosed in accordance with IAS 12 "Income Taxes". All fair value adjustments are ignored for taxation purposes as tax is assessed on the cash retained as profit in the Company.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

## 3. Fair value of financial instruments

The Company's financial instruments comprise cash and cash equivalents, accrued interest and fees receivable, loans and receivables, advances from issuer Company and accounts payable that arise directly from its operations. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

3. **Fair value of financial instruments (continued)**

Loans and receivables are recognised initially at fair value. Subsequent to initial recognition, loans and receivables are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of comprehensive income over the period of the borrowings on an effective interest basis.

In accordance with IFRS 13, all financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the observability of the inputs used to measure fair value:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets;
Level 2 – inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly; and
Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

As at 31 December 2016 the Company had no financial instruments classified as Level 1 Level 2 or Level 3. There were no transfers between Level 1, 2 or 3 during 2017.

The carrying value of financial instruments, including loans and receivables, as disclosed in the Company's statement of financial position as at 31 December 2017, approximate their fair value because such instruments are short-term in nature and/or bear variable interest rates.

The fair value and carrying amount of financial instruments not recorded at fair value on the balance sheets at 31 December 2017 are as follows:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| | **$** | **$** | $ | $ |
| Financial assets: | | | | |
| Cash and cash equivalents | **-** | **-** | 290,793 | 290,793 |
| Accrued interest and fees receivable | **258,197** | **258,197** | 353,537 | 353,537 |
| Loans and receivables | **275,500,000** | **275,500,000** | 639,977,273 | 639,977,273 |
| Financial liabilities: | | | | |
| Accounts payable and accrued liabilities | **177,550** | **177,550** | 231,442 | 231,442 |
| Advances from liquidity providers | **216,840,909** | **216,840,909** | 639,977,273 | 639,977,273 |
| Advances from issuer company | **52,790,652** | **52,790,652** | 2,369,771 | 2,369,771 |
| Overdraft | **7,957,242** | **7,957,242** | - | - |

## 4. Loans and receivables

The Company's loans and receivable are eligible receivables purchased by the Company. The eligible receivables purchased by the Company were pledged as security for the Company's borrowings from Cancara Asset Securitisation Limited. The total purchase commitments in place by the Company as at 31 December 2017 and 2016 equaled $494,318,182 and $725,000,000 respectively.

The outstanding eligible receivables of the Company as at 31 December 2017 were denominated in United States dollar.

All of the outstanding eligible receivables as at 31 December 2017 were auto loans.

Assuming no prepayments, the Company's eligible receivable are anticipated to be collected as follows:

| | $ |
|---|---|
| 2018 | 275,500,000 |
| 2019 | - |
| 2020 | - |
| 2021 | - |
| 2022 | - |
| | 275,500,000 |

There were no overdue amounts due to the Company as at 31 December 2017 and 31 December 2016.

## 5. Advances from issuer Company

Advances from issuer Company are amounts funded to the Company by Cancara Asset Securitisation Limited under the commissioning agreement. These amounts are initially stated at the amount of proceeds received. The carrying amount is increased by the finance cost in respect of the reporting period and reduced by payments made.

All of the outstanding advances from the issuer Company as at 31 December 2017 were due in one year or less, or on demand, dependent on cash receipts from the assets. Please refer to note 6 for the advances from issuer Company maturity analysis.

## 6. Nature and extent of risks arising from financial instruments

Structured transactions such as securitizations involve risks including but not limited to (1) credit risk; (2) market risk and (3) liquidity risk. Credit risk is the risk of payment default or non-cash adjustments to receivable balances. Liquidity risk is the risk that funds will not be available to repay outstanding advances and that there will be a draw under the applicable liquidity or credit facility. Market risk incorporates interest rate risk, currency risk and other risks, including disruptions in the asset backed commercial paper market. Further discussion on each of these risks follows:

a) Credit risk

Credit risk refers to the risk that the eligible receivables will not be repaid to the Company. The credit risk associated with the cash and cash equivalents line is deemed to be minimal due to the credit quality of the counterparties with which the cash is held.

The credit risk faced by the Company is that the receivables acquired by the Company will default, thereby impairing the Company's ability to meet its obligations under short-term borrowings. The default risk is reduced through a combination of over-collateralisation measures and the imposition of transaction triggers.

As at 31 December 2017 and 2016, the Company's maximum exposure to credit risk totals \$275,758,197 and \$640,330,810, respectively.

b) Interest rate risk

Interest rate risk arises from the mismatches between the maturities of interest rate sensitive assets and interest rate sensitive liabilities. The Company has minimised the interest rate risk by matching interest terms of assets and liabilities. During the year, all of the Company's borrowings and assets were at floating rates.

If interest rates had been 10 basis points higher during the year ended 31 December 2017, interest expense would have been approximately \$525,000 higher, and interest revenue would have been approximately \$525,000 higher, resulting in no change to net profit.

If interest rates had been 10 basis points lower during the year ended 31 December 2017, interest expense would have been approximately \$525,000 lower, and interest and fee revenue would have been approximately \$525,000 lower, resulting in no change to net profit.

6. **Nature and extent of risks arising from financial instruments (continued)**

c) Currency risk

The Company provides asset securitisation financing to companies operating in OECD countries. These relevant funding agreements are denominated in the operating currencies of the customers involved.

The Company's policy is to manage currency exposures on transactions. This is achieved through matching, as far as it is possible, assets and liabilities in order to reduce the net exposure to movements in foreign exchange rates.

d) Liquidity risk

Funding has been obtained through Cancara Asset Securitisation Limited. Repayments on these advances are dependent on cash receipts from the eligible receivables. Cancara Asset Securitisation Limited has limited recourse to the assets pledged under the terms of the Commissioning Agreement. The Company also has the benefit of a limited recourse liquidity facility which can be drawn upon should there be any timing gaps on the availability of borrowing.

In the addition to the purchase commitments discussed in note 4, in the normal course of business the Company enters into contracts that give rise to commitments of future payments that affect the Company's short-term and long-term liquidity. The following table provides a summary of the Company's primary contractual funding commitments:

| | Within 1 year | **31 December 2017** |
|---|---|---|
| | $ | $ |
| Accrued expenses and other liabilities | **177,550** | **177,550** |
| Cash overdraft | **7,957,242** | **7,957,242** |
| Advances from liquidity providers | **216,840,909** | **216,840,909** |
| Advances from issuer company | **52,790,652** | **52,790,652** |
| | **277,766,353** | **277,766,353** |

| | Within 1 year | 31 December 2016 |
|---|---|---|
| | $ | $ |
| Accrued expenses and other liabilities | 231,442 | 231,442 |
| Advances from liquidity providers | 639,977,273 | 639,977,273 |
| Cash overdraft | - | - |
| Advances from issuer company | 2,369,771 | 2,369,771 |
| | 642,578,486 | 642,578,486 |

## 6. Nature and extent of risks arising from financial instruments (continued)

The following table provides a summary of the Company's expected asset recovery.

| | Within 1 year | 1 year to 3 years | 4 years to 5 years | **31 December 2017** |
|---|---|---|---|---|
| | $ | $ | $ | **$** |
| Accrued interest and fees receivable | 258,197 | - | - | **258,197** |
| Loans and receivables | 275,500,000 | - | - | **275,500,000** |
| | 275,758,197 | - | - | **275,758,197** |

| | Within 1 year | 1 year to 3 years | 4 years to 5 years | 31 December 2016 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accrued interest and fees receivable | 353,537 | - | - | 353,537 |
| Loans and receivables | - | 639,977,273 | - | 639,977,273 |
| | 353,537 | 639,977,273 | - | 640,330,810 |

The net funding gap between loan assets and liabilities is overcome by the roll forward of the commercial paper in Cancara Asset Securitisation Limited or fundings from Lloyds Bank plc or Bank of Scotland plc, which facilitates the funding in the Company.

e) Market Risk

The liquidity arrangements noted above mitigate market risks associated with disruptions in the asset backed commercial paper market that would result in an inability of the Issuer to refinance any of its maturing commercial paper obligations.

## 7. Ultimate controlling party

The shares in the Company are held by Wilmington Trust SP Services (London) Limited under a declaration of trust for charitable purposes. There is one authorized share of £1 allotted, called up and fully paid as of 31 December 2017.

In accordance with the requirements of IFRS 10 "Consolidated Financial Statements" the Company's financial statements are consolidated within the group financial statements of Lloyds Banking Group plc for the year ended 31 December 2017.

The Company regarded by the directors as the ultimate parent Company of the Company is Lloyds Banking Group plc which is the parent undertaking of the largest group of undertakings for which group accounts are drawn and of which the Company is a member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the group accounts of both may be obtained from the Company secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

## 8. Related party transactions

Corporate administration services are provided to the Company by Wilmington Trust SP Services (London) Limited. The directors' fees are included in the corporate administration services fee. The fees charged in 2017 were $11,867 (2016: $11,496).

Also, Lloyds Bank plc acts in various capacities under the conduit programme documents including as the overdraft provider, a liquidity provider and a hedge counterparty. The Company had the following transactions with Lloyds Bank plc in the year:

| | 2017 - $ | 2016 - $ |
|---|---|---|
| Liquidity and administration expense | 3,221,833 | 4,244,371 |
| Interest expense | 2,720,101 | 240,740 |

The Company had the following transactions outstanding with Lloyds Bank plc at the year end :

| | 31 December 2017 - $ | 31 December 2016 - $ |
|---|---|---|
| Accounts receivable | 2,006,468 | 1,955,347 |
| Liquidity draw | 108,420,454 | 319,988,637 |
| Interest payable | 66,329 | 90,005 |

Also, Bank of Scotland plc acted as a liquidity provider to the Company during the financial year. The Company had the following transactions with Bank of Scotland plc in the year:

| | 2017 - $ | 2016 - $ |
|---|---|---|
| Liquidity expense | 820,733 | 935,642 |
| Interest expense | 2,718,961 | 240,740 |

## 8. Related party transactions (continued)

The Company had the following transactions outstanding with Bank of Scotland plc at the year end:

| | 31 December 2017 - $ | 31 December 2016 - $ |
|---|---|---|
| Accounts payable | 26,383 | 35,808 |
| Liquidity draw | 108,420,454 | 319,988,637 |
| Interest payable | 66,329 | 90,005 |

The Company includes interest payable in accounts payable and accrued liabilities in the statement of financial position.

In addition, the Company had short-term borrowings from Cancara Asset Securitisation Limited, which are fellow members of the group headed by Lloyds Banking Group plc, and had the following interest expense on those borrowings in the year:

| | 2017 - $ | 2016 - $ |
|---|---|---|
| Interest expense | - | 3,572,723 |

The Company had the following short-term borrowings outstanding with Cancara Asset Securitisation Limited at year end:

| | 31 December 2017 - $ | 31 December 2016 - $ |
|---|---|---|
| Short-term borrowings | 52,790,652 | 2,369,771 |

## 9. Income tax expense

As discussed in note 2, the Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017. For the period ended 31 December 2017, the Company shows net profit before taxes of $1,673 and income tax expense of $322.

## 10. Auditor's Remuneration

| | 2017 - $ | 2016 - $ |
|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 8,720 | 10,257 |

## 11. Subsequent events

No subsequent events have been identified.