

**LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2017**

MONDAY



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# **LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED**

## **REPORT AND FINANCIAL STATEMENTS**

For the year ended 31 December 2017

Registered in England & Wales, Company No. 01397437

Registered office: 25 Gresham Street, London, England, EC2V 7HN.

### **DIRECTORS**

A.E. Appen

P.N. Pitale

### **COMPANY SECRETARY**

A.E. Mulholland (Appointed 30 November 2017)

# **LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED**

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# **LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2017

The directors present their report and the audited financial statements of Lloyds Bank Financial Services (Holdings) Limited ("Company"), a private company limited by shares, for the year ended 31 December 2017.

## **PRINCIPAL OBJECTIVES AND STRATEGIES**

The Company's principal activity is to act as a holding company for a number of companies within Lloyds Banking Group plc, including several special purpose entities.

It is the Directors current expectation that three of the Company's subsidiary undertakings; Cloak Lane Funding Limited, Cloak Lane Investments Limited and Mitre Street Funding Limited will be re-domiciled from Jersey to Luxembourg prior to 31 December 2018. Prior to re-domiciliation the Company's subsidiaries will be reviewing their ongoing capital requirements which will have an impact on the Company's Balance Sheet. The expected impact will result in a reduction of the Investments in Subsidiaries balance totalling £1,838,902,000 relating to the investment in Mitre Street Funding Limited and a reduction of £1,000 relating to the investment in Cloak Lane Investments Limited. The full repayment of the Cloak Lane Investments Limited debtor balance will reduce the current assets balance by £1,355,907,000. Cash received on restructures will be used to reduce the liabilities with the immediate parent company.

## **BUSINESS MODEL**

A list of the Company's principal subsidiaries at 31 December 2017 is shown in note 14.

There are no expected changes in the nature of the Company's operations during the year and no changes are expected in the foreseeable future.

## **PERFORMANCE REVIEW**

The profit for the year of £9,636,000 (2016: loss of £9,717,000) is set out in the Statement of Comprehensive Income on page 8. The Company also received dividend income of £16,000,000 (2016: £Nil) during the year.

Total assets as at 31 December 2017 were £3,344,986,000 (2016: £3,354,435,000), with net assets of £109,417,000 (2016: £99,781,000).

No final dividend has been proposed by the directors during the year (2016: £nil).

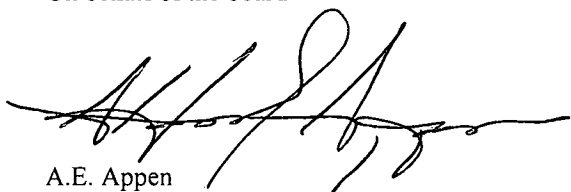
## **PRINCIPAL RISKS AND UNCERTAINTIES**

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Lloyds Banking Group and are not managed separately. Full disclosure of the Company's financial risk management objectives and policies are given in note 15 to the financial statements.

## **KEY PERFORMANCE INDICATORS ("KPIs")**

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

On behalf of the board



A.E. Appen  
DIRECTOR

Date: 21, 18, 2018

# **LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED**

## **DIRECTORS' REPORT**

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

## **DIRECTORS**

The names of the directors of the Company, all of whom served throughout the year and up to the date of signing the financial statements except where indicated below, are shown on page 1.

There were no changes to directors during the year:

## **DIRECTORS' INDEMNITIES**

Lloyds Banking Group plc has granted to the Directors of the Company (including former directors who retired during the year) a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial year and at the date of approval of the financial statements (or from the date of appointment in respect of the Director who joined the Board of the Company during the financial year). The indemnities remain in force for the duration of a Director's period of office. The deeds indemnify the Directors to the maximum extent permitted by law. Deeds for existing Directors are 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.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## DIRECTORS' REPORT (CONTINUED)

### GOING CONCERN

As at 31 December 2017 the Company's current liabilities exceeded its current assets by £1,730,000,000 (2016:£1,739,000,000). We note that the main current liability is group funding of £3,212,000,000 whilst the main asset is investment in subsidiaries which are classified as non-current based on maturity.

The Company is reliant on funding provided by Lloyds Bank plc which is a subsidiary of Lloyds Banking Group plc. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

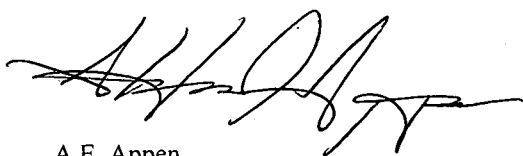
### INDEPENDENT AUDITORS AND AUDIT INFORMATION

Each director in office at the date of this report confirms that, so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

On behalf of the board



A.E. Appen  
DIRECTOR

Date: July 18, 2018

Incorporated and domiciled in England & Wales, company no. 01397437

## ***Independent auditors' report to the members of Lloyds Bank Financial Services (Holdings) Limited***

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

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#### **Opinion**

In our opinion, Lloyds Bank Financial Services (Holdings) 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the 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 equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **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.

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#### **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.

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#### **Reporting on other information**

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

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

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

Based on 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.

#### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 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 Strategic Report and Directors' Report.

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## 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 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

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

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](http://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.

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## 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.



Jonathan Hinchliffe (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

19 July 2018



# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Interest and similar income	3	5,187	7,452
Interest and similar expense	3	<u>(11,348)</u>	<u>(16,945)</u>
Net interest expense	3	(6,161)	(9,493)
Dividend and similar income	4	16,000	-
<b>Profit/(Loss) before taxation</b>		<u>9,839</u>	<u>(9,493)</u>
Taxation	6	<u>(203)</u>	<u>(224)</u>
<b>Profit/(Loss) for the year</b>		<u>9,636</u>	<u>(9,717)</u>
<b>Total comprehensive income/(expense) for the year</b>		<u>9,636</u>	<u>(9,717)</u>

All loss is attributable to equity shareholders.

The accompanying notes on page 12 to 25 form an integral part of the financial statements.

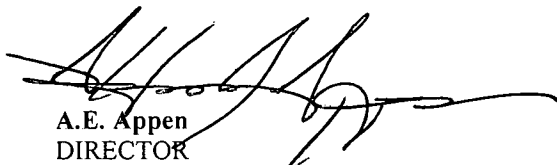
# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## BALANCE SHEET

As at 31 December 2017

	Notes	2017 £'000	2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	14	<u>1,860,008</u>	<u>1,860,008</u>
<b>Total non-current assets</b>		<u>1,860,008</u>	<u>1,860,008</u>
<b>Current assets</b>			
Cash and cash equivalents	7, 14	110,151	110,506
Amounts owed by group companies	14	1,355,907	1,365,220
Amounts owed by immediate parent company	14	18,000	18,000
Other current assets	8	<u>920</u>	<u>701</u>
<b>Total current assets</b>		<u>1,484,978</u>	<u>1,494,427</u>
<b>Total assets</b>		<u>3,344,986</u>	<u>3,354,435</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Amounts owed to immediate parent company	14	<u>20,996</u>	<u>20,996</u>
<b>Total non-current liabilities</b>		<u>20,996</u>	<u>20,996</u>
<b>Current liabilities</b>			
Amounts owed to immediate parent company	14	3,211,918	3,230,733
Other current liabilities	10	2,445	2,332
Current tax payables	9	<u>210</u>	<u>593</u>
<b>Total current liabilities</b>		<u>3,214,573</u>	<u>3,233,658</u>
<b>Total liabilities</b>		<u>3,235,569</u>	<u>3,254,654</u>
<b>Equity</b>			
Share capital	11	30,374	30,374
Share premium	12	1	1
Capital contribution reserve	13	108,067	108,067
Accumulated losses		<u>(29,025)</u>	<u>(38,661)</u>
<b>Total equity</b>		<u>109,417</u>	<u>99,781</u>
<b>Total liabilities and equity</b>		<u>3,344,986</u>	<u>3,354,435</u>

The financial statements on pages 8 to 25 were approved by the Board of Directors on 18 July 2018 and signed on its behalf by:

  
A.E. Appen  
DIRECTOR

The accompanying notes on page 12 to 25 form an integral part of the financial statements.

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital and share premium £000	Capital contribution reserve £000	Accumulated Losses £000	Total Equity £000
<b>Balance at 1 January 2016</b>	30,375	108,067	(28,944)	109,498
Loss and total comprehensive expense for the year	-	-	(9,717)	(9,717)
<b>Balance at 31 December 2016</b>	30,375	108,067	(38,661)	99,781
Profit and total comprehensive income for the year	-	-	9,636	9,636
<b>Balance at 31 December 2017</b>	30,375	108,067	(29,025)	109,417

The accompanying notes on page 12 to 25 form an integral part of the financial statements.

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation		9,839	(9,493)
Adjustment for:			
Interest income	3	(5,187)	(7,452)
Interest expense	3	11,348	16,945
Dividends received	4	(16,000)	-
Operating result before working capital changes		-	-
Cash generated from operating activities before tax		-	-
Corporation Tax paid		(585)	(344)
<b>Net cash used in operating activities</b>		<b>(585)</b>	<b>(344)</b>
<b>Cash flows from investing activities</b>			
Interest received		4,967	7,735
Dividends and similar income received	14	16,000	-
Acquisition of 10,000 ordinary shares in Horsham Investments Limited	14	-	(10)
Liquidation of 100,000 ordinary shares in Kingsbarns Investments Limited	14	-	68
Amounts advanced to subsidiaries	14	(2,265)	(7,282)
Amounts repaid by subsidiaries	14	11,578	-
<b>Net cash generated from investing activities</b>		<b>30,280</b>	<b>511</b>
<b>Cash flows from financing activities</b>			
Interest paid	14	(11,235)	(17,957)
Increase in amounts owed to group companies	14	7,367	17,804
Amount repaid to parent company	14	(26,182)	(68)
<b>Net cash used in financing activities</b>		<b>(30,050)</b>	<b>(221)</b>
Net decrease in cash and cash equivalents		(355)	(54)
Cash and cash equivalents at beginning of the year		110,506	110,560
<b>Cash and cash equivalents at end of the year</b>	7, 14	<b>110,151</b>	<b>110,506</b>

The accompanying notes on page 12 to 25 form an integral part of the financial statements.

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 1. ACCOUNTING POLICIES

#### BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis under the historical cost convention, in compliance with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently for each of the periods presented, unless otherwise stated.

These separate financial statements contain information about the 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 Consolidated and Separate Financial Statements from the requirement to prepare consolidated financial statements, and the exemption under IAS 28 Investment in Associates from using the equity method of accounting for investment in associates. The Company has also taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company.

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies which are set out in the sections below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. Actual results may differ from these estimates.

The following pronouncement was effective during the year and relevant to the Company:

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
Amendment to IAS 1, 'Disclosure Initiative' (issued January 2016)	The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.	Annual periods beginning on or after 1 January 2017
Amendments to IAS 7, 'Disclosure Initiative' (issued February 2016)	The amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.	Annual periods beginning on or after 1 January 2017

The following pronouncements will be relevant to the Company but were not effective as at 31 December 2017:

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS 9 'Financial instruments'	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.  The Company has assessed the impact of IFRS9 and these changes are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 1. ACCOUNTING POLICIES (CONTINUED)

IFRS 17 'Insurance Contracts'	This standard replaces the guidance in IFRS 4. IFRS 17 sets out the requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds.	Annual periods beginning on or after 1 January 2021
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#### (a) Revenue recognition

Interest income and expense are recognised in the Statement of Comprehensive Income for all interest-bearing financial instruments, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. Fees and commissions, which are not an integral part of the effective interest rate, are generally recognised when the service has been provided. Dividend income is recognised when the right to receive payment is established.

#### (b) Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

#### (c) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, less bank overdrafts.

#### (d) Loans and receivables

Loans and receivables are accounted for at amortised cost using the effective interest method. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs.

#### (e) Investments in and loans to subsidiaries

Shares in subsidiary companies are stated in the balance sheet of the Company at cost less any provisions for impairment. Preference shares which carry mandatory dividend payments or are redeemable on a specified date or at the option of the shareholder are presented as loans, with the related preference dividends treated as interest income. Other shares in subsidiaries are presented as investments in subsidiaries. The Company determines that investments in subsidiaries are impaired when there has been a sustained deterioration in the net asset values of the investment.

#### (f) Impairment of loans and receivables

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 has become impaired. 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 estimated future cash flows discounted at that asset's original effective interest rate.

# **LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **(g) Borrowings**

Borrowings are stated at amortised cost using the effective interest method and are classified as financial liabilities. The coupon paid on these instruments is recognised in the statement of comprehensive income as interest expense.

#### **(h) Foreign currency translation**

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

#### **(i) Dividends**

Dividends on ordinary shares treated as equity are recognised in equity in the period in which they are declared.

#### **(j) Share capital**

Ordinary and irredeemable preference shares which carry rights to discretionary dividends are classified as equity

#### **(k) Going Concern**

As at 31 December 2017 the Company's current liabilities exceeded its current assets by £1,730,000,000 (2016:£1,739,000,000). We note that the main current liability is group funding of £3,212,000,000 whilst the main asset is investment in subsidiaries which are classified as non-current based on maturity.

The Company is reliant on funding provided by Lloyds Bank plc which is a subsidiary of Lloyds Banking Group plc. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis

### **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company makes assumptions and estimates that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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.

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 of loans and receivables**

The Company determines that the loans and receivables are impaired when the present value of the estimated future cash flows do not exceed their recoverable amount. Estimating the future cash flows requires a degree of judgement and may depend to a large extent on the selection of key assumptions about the future used.

#### **Impairment of investment in subsidiaries**

The Company determines that investments in subsidiaries are impaired when there has been a sustained deterioration in the net asset values of the investment.

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 3. NET INTEREST EXPENSE

	2017 £'000	2016 £'000
<i>Interest Income</i>		
Amounts receivable from group companies (note 14)	4,810	7,000
Amounts receivable from immediate parent company (note 14)	60	95
Cash balance with immediate parent company (note 14)	317	357
	<u>5,187</u>	<u>7,452</u>
<i>Interest Expense</i>		
Amounts payable to immediate parent company (note 14)	(11,348)	(16,945)
	<u>(11,348)</u>	<u>(16,945)</u>
Net interest expense	<u>(6,161)</u>	<u>(9,493)</u>

### 4. DIVIDEND AND SIMILAR INCOME

Income from shares in subsidiary companies comprised:

	2017 £'000	2016 £'000
Dividends (note 14)	16,000	-
	<u>16,000</u>	<u>-</u>

### 5. OTHER OPERATING EXPENSE

Statutory audit fees of £10,000 (2016: £10,000) have been borne by Lloyds Bank plc (note 14): The number of persons employed by the Company during the year was nil (2016: nil).

No remuneration was paid or is payable by the Company to the directors (2016: nil). The directors are employed by other companies in Lloyds Banking Group and consider that their services to this company are incidental to their other activities within the group.

### 6. TAXATION

#### (a) Analysis of tax charge for the year

	2017 £'000	2016 £'000
UK Corporation tax:		
Current tax on taxable profit for the year	(210)	(228)
Adjustments in respect of prior years	7	4
<b>Total taxation charge for the year</b>	<u>(203)</u>	<u>(224)</u>

Corporation tax is calculated at a rate of 19.25% (2016: 20.00%) of the taxable profit for the year.



# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 6. TAXATION (continued)

#### (a) Analysis of tax (charge)/credit for the year (continued)

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

	2017 £'000	2016 £'000
Profit/(Loss) before taxation	9,839	(9,493)
Tax credit thereon at UK corporation tax rate of 19.25% (2016: 20.00%)	(1,894)	1,899
Factors affecting charges:		
Non taxable dividend income	3,080	-
Apportionment of income of controlled foreign company	(1,396)	(2,127)
Adjustments in respect of prior years	7	4
<b>Total taxation charge</b>	<b>(203)</b>	<b>(224)</b>
<b>Effective rate</b>	<b>2.1%</b>	<b>2.4%</b>

#### (b) Factors affecting the tax charge for the year

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 main rate of corporation tax to 17% with effect from 1 April 2020.

### 7. CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Cash balances - Lloyds Bank plc (note 14)	110,151	110,506
	<u>110,151</u>	<u>110,506</u>

### 8. OTHER CURRENT ASSETS

	2017 £'000	2016 £'000
Interest receivable on amounts owed by immediate parent company (note 14)	1	1
Interest receivable from group companies (note 14)	919	700
	<u>920</u>	<u>701</u>

### 9. CURRENT TAX RECEIVABLES AND PAYABLES

	2017 £'000	2016 £'000
Corporation tax payable	210	593
	<u>210</u>	<u>593</u>

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 10. OTHER CURRENT LIABILITIES

	2017 £'000	2016 £'000
Interest payable to immediate parent company (note 14)	<u>2,445</u>	<u>2,332</u>
	<u>2,445</u>	<u>2,332</u>

### 11. SHARE CAPITAL

	2017 Number of shares	2016 Number of shares	2017 £'000	2016 £'000
<b>Issued and fully paid:</b>				
At the beginning of the year (par value of £1 each)	<u>30,374,000</u>	<u>30,374,000</u>	<u>30,374</u>	<u>30,374</u>
At the end of the year	<u>30,374,000</u>	<u>30,374,000</u>	<u>30,374</u>	<u>30,374</u>

### 12. SHARE PREMIUM

	2017 £'000	2016 £'000
At the beginning and end of the year	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>

### 13. CAPITAL CONTRIBUTION RESERVE

	2017 £'000	2016 £'000
Capital contribution reserve - at beginning and end of the year	<u>108,067</u>	<u>108,067</u>
Total other reserves	<u>108,067</u>	<u>108,067</u>

### 14. RELATED PARTY TRANSACTIONS

The Company's immediate parent company is Lloyds Bank plc. The Company regarded by the directors as both the ultimate parent and controlling company is Lloyds Banking Group plc which is 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 undertaking of the smallest such group of undertakings. Copies of the group financial statements of both may be obtained from the Company secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The Company's related parties include its ultimate parent company 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.

#### *Transactions with key management personnel*

There were no transactions between the Company or its subsidiaries with key management personnel during the current year. Key management personnel are employed by other companies in the Lloyds Banking Group and consider that their services to the Company are incidental to their other activities with the Group.

#### *Other transactions with group company*

	2017 £'000	2016 £'000
Bank Balance - Lloyds Bank plc (note 7)	<u>110,151</u>	<u>110,506</u>
Interest Income earned (note 3)	<u>317</u>	<u>357</u>

Audit fees of £10,000 for the year (2016: £10,000) are borne by Lloyds Bank plc (note 5).

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 14. RELATED PARTY TRANSACTIONS (CONTINUED)

#### Investment in subsidiaries

	2017 £'000	2016 £'000
At beginning of the year	1,860,008	1,860,066
Additions during the year	-	10
Liquidated during the year	-	(68)
At end of the year	<u>1,860,008</u>	<u>1,860,008</u>
Represented by:		
Non-current	1,860,008	1,860,008
Current	-	-
	<u>1,860,008</u>	<u>1,860,008</u>

	**Class	Number held	% held	2017 Cost £'000	2016 Cost £'000
<b>Representing:</b>					
Cloak Lane Investments Limited	£1 Ord	1,000	100	1	1
Corbiere Asset Investments Limited*	£2,000 Ord A	499	99.8	998	998
Dunstan Investments (UK) Limited*	£1 Ord	100,000	100	100	100
Horsham Investments Limited	£1 Ord	10,000	100	10	10
Mitre Street Funding Limited	JPY1 Ord	250,000	100	1,838,902	1,838,902
PIPS Asset Investments Limited*	£1,000 Ord A	9,999	100	9,999	9,999
Waymark Asset Investments Limited*	£2,000 Ord A	4,999	100	9,998	9,998
				<u>1,860,008</u>	<u>1,860,008</u>

\* - Incorporated in England & Wales

\*\*Class - Ordinary (Ord)

	2017 £'000	2016 £'000
<b>Dividends received from subsidiaries (note 4):</b>		
Mitre Street Funding Limited	<u>16,000</u>	-
	<u>16,000</u>	-

Entity name	Country of incorporation	Nature of business
Cloak Lane Investments Limited	Jersey	Investment holding company
Corbiere Asset Investments Limited	England and Wales	Finance and investment company
Dunstan Investments (UK) Limited	England and Wales	Finance and Investment company
Horsham Investments Limited	Jersey	Investment holding company
Mitre Street Funding Limited	Jersey	Finance company
PIPS Asset Investments Limited	England and Wales	Investment holding company
Waymark Asset Investments Limited	England and Wales	Finance and investment company

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 14. RELATED PARTY TRANSACTIONS (CONTINUED)

#### *Amounts owed by group companies*

	2017 £'000	2016 £'000
At beginning of the year	1,365,220	1,357,938
Advances during the year	2,265	7,282
Repayments during the year	(11,578)	-
At end of the year	<u>1,355,907</u>	<u>1,365,220</u>
Represented by:		
Current	<u>1,355,907</u>	<u>1,365,220</u>
	<u>1,355,907</u>	<u>1,365,220</u>
Representing:		
Cloak Lane Investments Limited	<u>1,355,907</u>	<u>1,365,220</u>
	<u>1,355,907</u>	<u>1,365,220</u>
Interest Income earned (note 3)	<u>4,810</u>	<u>7,000</u>
Interest Income receivable (note 8)	<u>919</u>	<u>700</u>

No provisions have been recognised in respect of amounts owed by group companies.

Interest on the outstanding loan to Cloak Lane Investments Limited is charged at 3 month LIBOR, the loan is rolled on a quarterly basis. The maturity of the loan is 15 November 2018.

#### *Amounts owed by immediate parent company*

	2017 £'000	2016 £'000
At beginning of the year	18,000	18,000
Advances during the year	-	-
Repayments during the year	-	-
At end of the year	<u>18,000</u>	<u>18,000</u>
Representing:		
Lloyds Bank plc	<u>18,000</u>	<u>18,000</u>
Interest Income earned (note 3)	<u>60</u>	<u>95</u>
Interest Income receivable (note 8)	<u>1</u>	<u>1</u>

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 14. RELATED PARTY TRANSACTIONS (CONTINUED)

#### *Amount owed to immediate parent company*

	2017 £'000	2016 £'000
At beginning of the year	3,251,729	3,233,925
Advanced during the year	7,367	17,804
Repayment during the year	(26,182)	-
At end of the year	<u>3,232,914</u>	<u>3,251,729</u>
Represented by:		
Current	3,211,918	3,230,733
Non Current	<u>20,996</u>	<u>20,996</u>
	<u>3,232,914</u>	<u>3,251,729</u>
Representing:		
Lloyds Bank plc	<u>3,232,914</u>	<u>3,251,729</u>
Interest charge during the year (note 3)	<u>11,348</u>	<u>16,945</u>
Interest payable (note 10)	<u>2,445</u>	<u>2,332</u>

Amounts owed to immediate parent company are interest bearing at LIBOR rates, the loan is rolled on a quarterly basis. The loans are repayable within 12 months except for non-current loans of £20,996,000 which mature between 6 and 35 years.

### 15. FINANCIAL RISK MANAGEMENT

The Company uses financial instruments to meet the financial needs of its counterparties and to reduce its own exposure to fluctuations in interest rates. The Company makes loans to other Lloyds Banking Group companies at floating rates and for various durations.

#### (a) Interest Rate Risk

Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets. From the perspective of the Company, the interest rate risks are integrated with the interest rate risks of the group and are not managed separately. The scenarios are run only for assets and liabilities that represent the major interest-bearing positions. Based on the simulations performed, the full year impact on post-tax profit of a 0.25% shift would be a maximum increase or decrease of approximately £3,531,000 (2016: £3,516,000).

The table below summarises the repricing mismatches of the Company's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. Expected repricing and maturity dates do not differ significantly from the contract dates.

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (a) Interest Rate Risk (continued)

As at 31 December 2017	1 month or less £'000	3 months or less but over 1 month £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non- interest bearing £'000	Total £'000
<i>Assets:</i>							
Non-current assets							
Investment in subsidiaries	-	-	-	-	-	1,860,008	1,860,008
Current assets							
Cash and cash equivalents	110,151	-	-	-	-	-	110,151
Amount owed by group companies	-	1,355,907	-	-	-	-	1,355,907
Amounts owed by immediate parent company	-	18,000	-	-	-	-	18,000
Other current assets	-	-	-	-	-	920	920
<b>Total Assets</b>	<b>110,151</b>	<b>1,373,907</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,860,928</b>	<b>3,344,986</b>
<i>Liabilities:</i>							
Non-current liabilities							
Amounts owed to immediate parent company	-	-	20,996	-	-	-	20,996
Current liabilities:							
Amounts owed to immediate parent company	1,856,011	1,355,907	-	-	-	-	3,211,918
Other current liabilities	-	-	-	-	-	2,445	2,445
Current tax payable	-	-	-	-	-	210	210
<b>Total Liabilities</b>	<b>1,856,011</b>	<b>1,355,907</b>	<b>20,996</b>	<b>-</b>	<b>-</b>	<b>2,655</b>	<b>3,235,569</b>
<b>Total interest sensitivity gap</b>	<b>(1,745,860)</b>	<b>18,000</b>	<b>(20,996)</b>	<b>-</b>	<b>-</b>	<b>1,858,273</b>	<b>109,417</b>

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (a) Interest Rate Risk (continued)

As at 31 December 2016	1 month or less £'000	3 months or less but over 1 month £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non- interest bearing £'000	Total £'000
<i>Assets:</i>							
Non-current assets							
Investment in subsidiaries	-	-	-	-	-	1,860,008	1,860,008
Current assets							
Cash and cash equivalents	110,506	-	-	-	-	-	110,506
Amount owed by group companies	-	1,365,220	-	-	-	-	1,365,220
Amounts owed by immediate parent company	-	18,000	-	-	-	-	18,000
Other current assets	-	-	-	-	-	701	701
<b>Total Assets</b>	<b>110,506</b>	<b>1,383,220</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,860,709</b>	<b>3,354,435</b>
<i>Liabilities:</i>							
Non-current liabilities							
Amounts owed to immediate parent company	-	-	20,996	-	-	-	20,996
Current liabilities:							
Amounts owed to immediate parent company	1,865,513	1,365,220	-	-	-	-	3,230,733
Other current liabilities	-	-	-	-	-	2,332	2,332
Current tax payables	-	-	-	-	-	593	593
<b>Total Liabilities</b>	<b>1,856,011</b>	<b>1,355,907</b>	<b>20,996</b>	<b>-</b>	<b>-</b>	<b>2,925</b>	<b>3,254,654</b>
<b>Total interest sensitivity gap</b>	<b>(1,755,007)</b>	<b>18,000</b>	<b>(20,996)</b>	<b>-</b>	<b>-</b>	<b>1,857,784</b>	<b>99,781</b>

#### (b) Fair Value of Financial Assets and Liabilities

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) Measurement Basis of Financial Assets and Liabilities

The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

As at 31 December 2017	Held at amortised cost £'000	Total £'000
<i>Assets:</i>		
Amounts owed by group companies	1,355,907	1,355,907
Amounts owed by immediate parent company	18,000	18,000
Investment in subsidiary company	1,860,008	1,860,008
Cash and cash equivalent	110,151	110,151
Other current assets	920	920
Total financial assets	<u>3,344,986</u>	<u>3,344,986</u>
<i>Liabilities:</i>		
Amounts owed to immediate parent company	3,232,914	3,232,914
Other current liabilities	2,445	2,445
Total financial liabilities	<u>3,235,359</u>	<u>3,235,359</u>
As at 31 December 2016	Held at amortised cost £'000	Total £'000
<i>Assets:</i>		
Amounts owed by group companies	1,365,220	1,365,220
Amounts owed by immediate parent company	18,000	18,000
Investment in subsidiary company	1,860,008	1,860,008
Cash and cash equivalent	110,506	110,506
Other current assets	701	701
Total financial assets	<u>3,354,435</u>	<u>3,354,435</u>
<i>Liabilities:</i>		
Amounts owed to immediate parent company	3,251,729	3,251,729
Current tax payables	593	593
Other current liabilities	2,332	2,332
Total financial liabilities	<u>3,254,654</u>	<u>3,254,654</u>

#### (d) Credit Risk

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at the year end.

	2017 £'000	2016 £'000
Amounts owed by group companies	1,355,907	1,365,220
Investment in subsidiaries	1,860,008	1,860,008
Cash and cash equivalents	110,151	110,506
Amounts owed by immediate parent company	18,000	18,000
Other current assets	920	701
Total credit risk exposure	<u>3,344,986</u>	<u>3,354,435</u>

The current rating of the immediate parent company, Lloyds Bank plc, is Aa3 as per Moody's (2016: A1). None (2016: None) of these amounts receivable are past due or impaired.



# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (e) Liquidity Risk

The table below analyses liabilities of the Company on an undiscounted future cash flow basis according to contractual maturity into relevant maturity groupings based on the remaining period at the Balance Sheet date.

As at 31 December 2017	On demand £'000	Up to 1 month £'000	1 - 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Non-current liabilities							
Amounts owed to immediate parent company	-	-	-	107	1,637	33,919	35,663
Current liabilities:							
Amounts owed to immediate parent company	-	350	880	3,231,257	-	-	3,232,487
Other current liabilities	-	1,520	919	6	-	-	2,445
Total Liabilities	-	1,870	1,799	3,231,370	1,637	33,919	3,270,595
As at 31 December 2016	On demand £'000	Up to 1 month £'000	1 - 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Non-current liabilities							
Amounts owed to immediate parent company	-	-	-	-	2,203	34,766	37,120
Current liabilities:							
Amounts owed to immediate parent company	-	1,082	1,369	3,235,968	-	-	3,238,268
Other current liabilities	-	1,627	699	6	-	-	2,332
Total Liabilities	-	2,709	2,068	3,235,974	2,203	34,766	3,277,720

The Company is funded on an ongoing basis by companies within Lloyds Banking Group. Such funding is technically repayable within one month, but there is no expectation that such a demand would be made.

#### (f) Capital Risk Management

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

The Company's parent company manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes to economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's capital comprises all components of equity, movements in which appear in the Statement of Changes in Equity on page 10. The Company received most of its funding requirements from its parent and does not raise funding externally.

# LLOYDS BANK FINANCIAL SERVICES (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (g) Fair value estimation

The fair value of the investment in subsidiaries is estimated using their net asset values.

#### Valuation Hierarchy

At 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment in subsidiaries	-	-	1,879,913	1,879,913
At 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment in subsidiaries	-	-	1,888,269	1,888,269

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine the fair values.

#### Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise treasury bills and other government securities. There are no level 1 assets at the balance sheet date.

#### Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where techniques use inputs that are based significantly on observable market data, the instrument is considered to be level 2. Examples of such instruments include most over the counter derivatives financial institution issued securities, certificates of deposits and certain asset backed securities. There are no level 2 assets at the balance sheet date.

#### Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows. The Level 3 portfolio listed above relates an interest in Cloak Lane Investments Limited (£3,120,000), Corbiere Asset Investments Limited (£1,025,944), Dunstan Investments (UK) Limited (£7,502,000), Mitre Street Funding Limited (£1,847,092,000), Pips Asset Investments Limited (£10,762,000), Waymark Asset Investments Limited (£10,401,000) and Horsham Investments Ltd (£10,000). The fair value for investment in subsidiaries has been calculated using the Net Asset Value (NAV) method.

### 16. EVENTS AFTER BALANCE SHEET DATE

There are no events after the Balance Sheet that the directors are aware of and require to bring to the attention of the Company.