

## Isobel AssetCo Limited

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

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# **Isobel AssetCo Limited**

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## **Isobel AssetCo Limited**

### **Officers and professional advisors**

#### **Directors**

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

#### **Registered office**

40 Berkeley Square  
London  
United Kingdom  
W1J 5AL

#### **Auditor**

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

#### **Manager**

The Blackstone Group International Partners LLP  
40 Berkeley Square  
London  
United Kingdom  
W1J 5AL

# Isobel AssetCo Limited

## Strategic report

### Background

Isobel AssetCo Limited (the "Company") and its affiliates (together, the "Group"), commenced trading on 12 January 2012 when it acquired a portfolio of loan assets from The Royal Bank of Scotland Group plc. ("RBS"). The adjusted cash consideration plus deferred consideration price of these assets excluding acquisition and funding costs was £869.3 million.

### Principal activity and future developments

Historically the principal activity of the Company, was the management of the loan portfolio of commercial real estate backed loan assets. In the year the final loans were repaid and as such the activity of the Company now is to manage the remaining resources towards resolution of the group.

### Strategy and objectives

At inception of trading all stakeholders agreed a business plan against which the Company's performance would be measured. The key performance indicator (KPI) of this day one business plan is the date and amount at which the loan assets are monetised (recovered). All loans have now been recovered and as such the remaining objective is to manage the Company towards resolution.

### Review of performance

- All 29 loans from the original portfolio have now been disposed or repaid.
- The current portfolio face value is now zero, reduced from £1.36bn at acquisition
- The total returns to shareholders since inception has been £579.7m with an IRR of 16.08%

### Actual cash flows

<b>Cash Flow Summary</b>		
<b>(£ in millions)</b>	<b>2015</b>	<b>2016</b>
Unlevered CF		
Loan Interest	2	1
Principal Loan Repayments	14	189
Overheads	(4)	(3)
<b>Total Cash Flows</b>	<b>12</b>	<b>187</b>

# Isobel AssetCo Limited

## Strategic report

### Principal risks and uncertainties

Historically the principal risks that the Company faced were credit, liquidity and interest rate risk. These risks, and how the Company managed these risks are discussed in note 22 of the financial statements.

Post final loan repayment the remaining risk to the Group is liquidity risk and the director is of the opinion that the Group continues to be in a strong position to manage its remaining assets.

#### *Interest rate risk*

Interest rate risk exists where assets and liabilities of different values have interest rates under a different basis or which reset at a different time.

The senior loan was repaid April 2014. The junior loan was repaid July 2015.

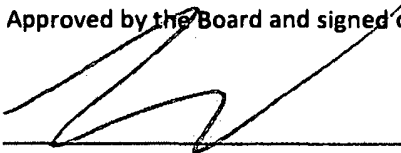
#### *Credit risk*

Historically the principal credit risk to the Group was the borrowers on the loan assets not being able to meet their obligations as they fall due and / or that commercial real estate values significantly decrease in the short term. With all loan positions recovered the credit risk is now negligible.

#### *Liquidity risk*

When providing funding to the Company, the debt and equity holders provided funds to allow the Company to maintain sufficient liquidity reserves to meet its obligations. The Senior and Junior loan have now been repaid and the structure retains sufficient cash reserves to maintain for the foreseeable future.

Approved by the Board and signed on its behalf by:



Farhad Karim  
Director

3<sup>rd</sup> August 2017

40 Berkeley Square  
London  
W1J 5AJ

## **Isobel AssetCo Limited**

### **Directors report**

The director presents his report on the affairs of Isobel AssetCo Limited, together with the financial statement and auditor's report for the year ended 31 December 2016.

#### **Dividends**

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

#### **Directors'**

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

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

#### **Directors indemnity**

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

#### **Going concern**

The Company has sufficient liquid resources to cover its liquidity requirements. A shortfall in recognised net income will first be borne by the deferred consideration liability, which at reporting date is sufficient to cover any net losses.

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

## Isobel AssetCo Limited

### Directors report

#### Auditor

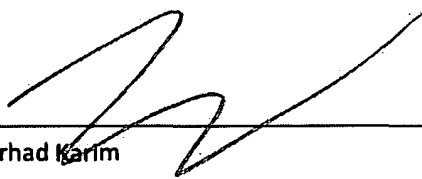
The director at the date of approval of this report confirms that:

- 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 they ought to have taken as director in order to be 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.

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

Approved by the Board and signed on its behalf by:

  
\_\_\_\_\_  
Farhad Karim  
Director  
3rd August 2017

40 Berkeley Square  
London  
W1J 5AJ

## **Isobel AssetCo Limited**

### **Directors responsibility statement**

The director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the director 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 director is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Isobel AssetCo Limited**

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

We have audited the financial statements of Isobel Assetco Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

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

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

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

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

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

In our opinion the financial statements:

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

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

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

## **Isobel AssetCo Limited**

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

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

In our opinion 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.

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

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

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



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

11 August 2017

# Isobel AssetCo Limited

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

	Notes	2016 £'000	2015 £'000
<b>Revenue</b>			
Interest income	6	127,374	7,260
<b>Total Revenue</b>		<u>127,374</u>	<u>7,260</u>
 Other gains and losses	 7	 <u>1,847</u>	 <u>-</u>
<b>Operating expenses</b>			
Management and professional fees		(3,314)	(3,509)
General and administrative expenses		(417)	(555)
		<u>(3,731)</u>	<u>(4,064)</u>
 Finance costs	 11	 <u>(125,486)</u>	 <u>(3,191)</u>
<b>Profit before taxation</b>		<u>5</u>	<u>5</u>
 Tax	 12	 <u>(1)</u>	 <u>(1)</u>
<b>Profit for the year</b>		<u>4</u>	<u>4</u>
 Other comprehensive income		 <u>-</u>	 <u>-</u>
<b>Total comprehensive income for the year</b>		<u><u>4</u></u>	<u><u>4</u></u>

All income is derived from discontinued operations.

The notes on pages 13 to 27 form an integral part of the financial statements.

# Isobel AssetCo Limited

## Balance Sheet

As at 31 December 2016

	Note	2016 £'000	2015 £'000
<b>Non-current assets</b>			
Investment in loans	13	-	63,320
Loan to related party	14	-	26,341
		<u>-</u>	<u>89,661</u>
<b>Current assets</b>			
Prepayments and other receivables	15	-	153
Cash and cash equivalents	21	3,432	11,572
		<u>3,432</u>	<u>11,725</u>
<b>Total assets</b>		<u>3,432</u>	<u>101,386</u>
<b>Non-current liabilities</b>			
Failed sale liabilities	17	-	(26,291)
Deferred consideration liabilities	18	(2,613)	(73,488)
Profit Allocation Payable		-	(654)
		<u>(2,613)</u>	<u>(100,433)</u>
<b>Current liabilities</b>			
Accruals and other payables	16	(798)	(936)
Current tax liabilities		(1)	(1)
		<u>(800)</u>	<u>(937)</u>
<b>Net current assets</b>		<u>2,633</u>	<u>10,788</u>
<b>Total liabilities</b>		<u>(3,412)</u>	<u>(101,370)</u>
<b>Net assets</b>		<u>20</u>	<u>16</u>
<b>Equity</b>			
Called up share capital	19	-	-
Retained earnings		20	16
<b>Total equity</b>		<u>20</u>	<u>16</u>

The notes on pages 13 to 27 form an integral part of the financial statements.

The statutory financial statements were approved by the directors and authorised for issue on 3rd August 2017 and were signed on their behalf by:

  
Farhad Karim  
Director

## Isobel AssetCo Limited

### Statement of changes in equity for the year ended 31 December 2016

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	-	12	12
Profit for the year	-	4	4
Balance at 31 December 2015	-	16	16
Balance at 1 January 2016	-	16	16
Profit for the year	-	4	4
Balance at 31 December 2016	-	20	20

The notes on pages 13 to 27 form an integral part of the financial statements.

## Isobel AssetCo Limited

### Cash flow statement for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>Cash flows from operating activities</b>			
Cash used in operations	20	(3,100)	(4,415)
<b>Net cash used in operating activities</b>		<b>(3,100)</b>	<b>(4,415)</b>
<b>Cash flows from investing activities</b>			
Proceeds from loan repayments		189,168	13,693
Interest received		588	2,113
<b>Net cash from investing activities</b>		<b>189,756</b>	<b>15,806</b>
<b>Cash flows from financing activities</b>			
Cash flow from repayment of borrowings		-	(11,960)
Borrowing costs paid		-	(1,105)
Payment of Deferred Consideration		(194,796)	(17,801)
<b>Net cash used in financing activities</b>		<b>(194,796)</b>	<b>(30,866)</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(8,140)</b>	<b>(19,475)</b>
Net opening cash and cash equivalents		11,572	31,047
<b>Net closing cash and cash equivalents</b>		<b>3,432</b>	<b>11,572</b>

The notes on pages 13 to 27 form an integral part of the financial statements.

# Isobel AssetCo Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 1) General information

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

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

### 2) Adoption of new and revised Standards

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

#### Annual Improvements to IFRSs 2010 – 2012 Cycle

(The amendments are effective in the EU for accounting periods beginning on or after 1 February 2015. However, earlier application is permitted so that companies applying IFRSs as adopted in the EU are able to adopt the amendments in accordance with the IASB effective date of 1 July 2014)

The Group has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2010 – 2012 Cycle for the first time in the current year.

The amendments are in the nature of clarifications rather than substantive changes to existing requirements.

The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

#### New and revised IFRSs in issue but not yet effective

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
IAS 1 (amendments)	Disclosure Initiative
IAS 16 and IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (amendments)	Agriculture: Bearer Plants
IAS 27 (amendments)	Equity Method in Separate Financial Statements
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 10, IFRS 12 and IAS 28 (amendments)	Investment Entities: Applying the Consolidation Exemption
Annual Improvements to IFRSs: 2012-2014 Cycle	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting

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

**3) Significant accounting policies**

**Basis of accounting**

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

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

**Going concern**

The Group has sufficient liquid resources to cover its liquidity requirements. A shortfall in recognised net income will be borne by the deferred consideration liability, which at reporting date is sufficient to cover any net losses.

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

**Interest income**

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

**Finance costs and Profit Allocation - owed to a related party**

Finance charges, include the amortisation of premiums payable on settlement or redemption of loans and direct issue costs related to remaining loans, which are amortised over the expected life of the loan. Profit Allocation is payable to Isobel Loan Capital in relation to deferred consideration on loans sold.

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

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

**Financial instruments**

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

***Financial assets***

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

***Effective interest method***

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

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

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

***Loans and receivables (including investment in loan assets)***

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

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

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

***Impairment of financial assets***

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

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

***Derecognition of financial assets***

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

***Financial assets at FVTPL***

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

***Financial liabilities and equity***

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

***Equity instruments***

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

***Financial liabilities***

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

***Financial liabilities at FVTPL***

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

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

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

***Other financial liabilities***

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

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

Failed sale liabilities are reported in accordance with 'Other financial liabilities'. These liabilities arise from the sale of loan assets to a related entity where the significant risks and rewards of ownership remain with the Company selling the loan assets.

***Derecognition of financial liabilities***

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

***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

***Embedded derivatives***

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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

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

**Provisions**

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

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

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

**Tax**

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

**Current tax**

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

**Deferred consideration liabilities**

The beneficiaries of the deferred consideration liabilities (DCL's), which include both the Ordinary deferred and Special deferred consideration liabilities, are entitled to certain profits accrued after the payment of the interest and principal of the senior and junior loans. The reported value of the DCL's is a reflection of the net present value of the Investment in loans less borrowings plus net current assets. The risk and uncertainties related to these financial instruments are discussed in the strategic report under the heading Principal risks and uncertainties.

The deferred consideration liabilities are classified as other liabilities and held at amortised cost.

**Failed sale liability**

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

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

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

**Investment Entity**

The Company holds loan portfolios that could potentially have elements of control on default by the borrower, therefore the Company has made the Investment Entity assessment under IFRS 10. The amendments to IFRS 10 'Consolidated financial statements' define an Investment Entity and require a reporting entity that meets the definition of an Investment Entity not to consolidate its subsidiaries, but instead to measure its subsidiaries at fair value through profit and loss.

To qualify as an investment entity, an entity would need to meet six criteria that are related to:

- (a) nature of the investment activity:
- (b) business purpose:
- (c) unit ownership:
- (d) pooling of funds:
- (e) fair value measurement
- (f) legal entity

Based on the above the Company does not meet the following typical characteristics of an investment entity under IFRS 10 as:

- All the Investors are not related parties, and
- The ownership interests of an investment entity are typically in the form of equity or similar interests.

Despite that the Directors have determined through qualitative assessment that the Company qualifies as an Investment entity as:

- (1) The Isobel Holding Sarl plc investor is a vehicle through which the unrelated investors invest in the Company; and
- (2) The Company is exposed to valuable returns from changes in the borrowing entities net assets.

Although the loan assets are measured at amortised cost in the Company, they are measured and evaluated quarterly on a fair value basis for the purposes of management reporting.

The loan assets have been classified as loan and receivables upon initial recognition. IAS 39 'Financial Instruments: Recognition and Measurement' does not allow an instruments to be reclassified to fair value through profit and loss after initial recognition. On that basis the Directors have continued to measure the loan assets at amortised cost and considers the Company as qualifying as an Investment Entity.

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

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

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

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

The following are the critical judgements, including those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

***Impairment***

The Company assess at each balance sheet date whether this is objective evidence that a financial asset is impaired and recognises an allowance for impairment when such evidence exists.

***Investment in loans***

The value at which individual loans are reported is based on the net present value of the estimated future cash flows of the loan. The future cash flows are based on management's assessment of the counterparty's ability to meet its contractual obligations and where these will not be met on management's assessment of the amount and when such cash flows will be received.

The amount and timing of loan repayments as estimated by management is based on market conditions, the value of the underlying collateral (if applicable) and the ability of the counterparty to meet future payments.

The effective interest method, described in note 3, is used to arrive at a rate which is applied to the future cash flows to calculate the net present value.

***Deferred consideration liability***

The beneficiaries of the deferred consideration liability are entitled to certain profits accrued after the payment of the interest and principal of the senior and junior loans. The valuation of the deferred consideration liability is linked to the valuation and carrying amounts of all assets and liabilities held by the Company and the judgements and estimates used to value them.

**5) Segment reporting**

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

# Isobel AssetCo Limited

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

### 6) Interest income

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

	2016	2015
	£'000	£'000
Interest on loans	125,809	5,438
Inter Company interest received	1,565	1,822
	<b>127,374</b>	<b>7,260</b>

Interest income from loans is recognised using the effective interest method as described in Note 3 and 4. Please see note 23 for overview of Related Party transactions.

### 7) Other gains and losses

	2016	2015
	£'000	£'000
Interest on Impaired Loans	615	-
Release of intercompany payment due	1,232	-
	<b>1,847</b>	<b>-</b>

Interest received during the year on a previously written-off loan asset.

### 8) Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2016	2015
	£'000	£'000
Fees payable to the Company's auditor for the audit of the annual accounts	35	35

The Company bears the audit fees for all Isobel Holdco Ltd group entities.

### 9) Staff costs and director remuneration

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

### 10) Dividends

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

### 11) Finance costs

	2016	2015
	£'000	£'000
<i>Borrowing costs on secured borrowings:</i>		
Interest on borrowings	-	(296)
Charge of deferred consideration liability	(123,921)	(815)
Failed sale expense	(1,565)	(1,822)
Amortisation of finance charges	-	(258)
	<b>(125,486)</b>	<b>(3,191)</b>

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

<b>12) Tax charge</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Current taxation		
• UK corporation tax for the year	<u>(1)</u>	<u>(1)</u>

The effective tax rate of 20.00% (2015: 20.25%) per cent is equal to the standard rate of corporation tax in the UK.

<b>13) Investment in loans</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Investment in loans	<u>-</u>	<u>63,320</u>

Investment in loans is the net present value of the expected future cash flows, discounted at the effective interest rate of each loan as at reporting date. Details of how the effective interest rate is calculated is provided in Note 3.

<b>14) Loan to related party</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Loan to Isobel Loan Capital Limited	<u>-</u>	<u>26,341</u>

The loan arises at the same time as the failed sale liability is incurred. Interest is charged on the loan at 6.5% p.a.

<b>15) Intercompany receivables</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Inter company receivable	<u>-</u>	<u>153</u>
	<u>-</u>	<u>153</u>

Prepayments and other receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

# Isobel AssetCo Limited

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

### 16) Accruals and other payables

	2016 £'000	2015 £'000
Accruals	(798)	(936)
	<u>(798)</u>	<u>(936)</u>

### 17) Failed sale liabilities

	2016 £'000	2015 £'000
Failed sale liabilities	-	(26,291)

The amount reported under failed sale liabilities is the net present value of the expected future cash flows payable, discounted at the effective interest rate. The expected future cash flows the Company incurs are directly linked to the financing costs and other expenses incurred by the related group company that legally owns the assets, and is restructuring and realising the underlying loan assets.

### 18) Deferred consideration liabilities

	2016 £'000	2015 £'000
Opening balance	(73,488)	(90,475)
Payment of Ordinary Deferred Consideration	171,930	17,800
Payment of Special Deferred Consideration	22,866	-
Charge reported in finance costs	(123,921)	(815)
Closing balance	<u>(2,613)</u>	<u>(73,488)</u>

Ordinary and Special deferred consideration are payable dependent on previously agreed performance hurdles. With all loans now repaid or disposed the performance hurdles were passed and the allocation of payments made between the two classifications.

### 19) Share capital

	2016 £	2015 £
Authorised, issued and fully paid - 2 shares of £1	<u>2</u>	<u>2</u>

The Company has one class of ordinary shares which carry no right to fixed income.

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

<b>20) Notes to the cash flow statement</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the year	5	5
<i>Adjustments for:</i>		
Interest income	(127,374)	(7,260)
Release of Intercompany Payment due	(1,232)	-
Finance costs	125,486	3,191
<i>Operating cash flows before movements in working capital</i>	<u>(3,116)</u>	<u>(4,064)</u>
Decrease / (increase) in prepayments and other receivables	153	(153)
Decrease in accruals	(137)	(198)
<b>Net cash outflow from operating activities</b>	<b><u>(3,100)</u></b>	<b><u>(4,415)</u></b>
<b>21) Cash and cash equivalents</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Cash and bank balances	<b><u>3,432</u></b>	<b><u>11,572</u></b>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

**22) Financial instruments**
**Capital risk management**

The Company fully repaid its debt positions during 2015 and retains a positive capital position moving forward.

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

**Financial risk management objectives**

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

**Interest rate risk management**

Previously the Company was more significantly exposed to interest rate risk because it borrowed funds at both fixed and floating interest rates as well as lending funds to third parties at floating rates. This was mitigated against as the floating interest rate received exceeded the exposure to floating interest paid.

With the repayment of all loan positions the interest rate risk is now determined by the directors to be negligible.

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

**22) Financial instruments (continued)**
**Credit risk management**

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

The split between the different loan assets categories is shown below:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Junior loan assets	-	45,172
Mezzanine loan assets	-	18,148
	<u>-</u>	<u>63,320</u>

**Liquidity risk management**

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

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

The following table details the Company's remaining contractual maturity for its financial liabilities with agreed repayment periods. As the senior and junior loan positions are now repaid the remaining position relates to standard creditor positions at the year end. Sufficient cash reserves are held to cover these expenses.

<b>2016</b>	<b>Par value</b>	<b>Interest rate</b>	<b>0 - 1 year</b>	<b>1 - 5 years</b>	<b>5+ years</b>	<b>Total</b>
Non-interest bearing	798	nil	798	-	-	798
Fixed interest rate	-	8.00%	-	-	-	-
	<u>798</u>		<u>798</u>	<u>-</u>	<u>-</u>	<u>798</u>
<b>2015</b>	<b>Par value</b>	<b>Interest rate</b>	<b>0 - 1 year</b>	<b>1 - 5 years</b>	<b>5+ years</b>	<b>Total</b>
Non-interest bearing	936	nil	936	-	-	936
Fixed interest rate instruments	-	8.00%	-	-	-	-
	<u>936</u>		<u>936</u>	<u>-</u>	<u>-</u>	<u>936</u>

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

**23) Related Parties**

The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. Its The Company enters into transactions with these bodies on an arms' length basis; they include the payment of: taxes  
The Company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in the United

The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated. Copies of the  
Isobel Holdco Limited heads the smallest group in which the Company is consolidated.

The following represents a summary of transactions that occurred during the reported period with other companies within The Royal Bank of Scotland Group plc:

**Transactions that occurred with RBS plc during the reporting period:**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Interest paid on senior debt	-	-
Fees related to senior debt	-	296
Payment of Ordinary Deferred Consideration	128,948	12,614
	<b>128,948</b>	<b>12,910</b>

<b>2016</b>	<b>2015</b>
<b>£'000</b>	<b>£'000</b>

**The following amounts were outstanding at balance sheet date:**

Deferred consideration - RBS plc	-	44,571
Deferred consideration - Natwest plc	-	10,546
	<b>-</b>	<b>55,117</b>

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

**23) Related Parties (continued)**

Isobel Holdings SarL plc is part of the Blackstone Group LP group of companies. The following represents a summary of transactions that occurred during the reported period with companies within Blackstone Group LP group of companies:

**Transactions that occurred with Blackstone Group LP during the reporting period:**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Management fee	571	885
Reimbursement of costs	1,500	2,000
Payment of Ordinary Deferred Consideration	42,983	5,187
Payment of Special Deferred Consideration	22,866	-
	<b>67,919</b>	<b>8,072</b>

**The following amounts were outstanding at balance sheet date:**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Deferred consideration - Isobel Holdings SarL plc	-	18,371

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

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Interest Income	1,565	1,822
Profit Allocation Expense	(945)	(10)
Interest Expense	<b>(1,565)</b>	<b>(1,822)</b>

**The following balances are outstanding as at the year end:**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Loan Receivable	-	22,824
Interest Receivable	-	3,517
Profit Allocation Payable	<b>-</b>	<b>(654)</b>

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

**24) Events after the reporting period**

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