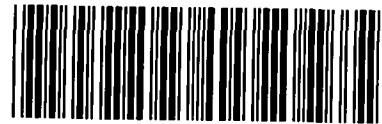


Company Registration No. 7815679

## Isobel AssetCo Limited

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

THURSDAY



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# **Isobel AssetCo Limited**

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## **Isobel AssetCo Limited**

### **Officers and professional advisors**

#### **Directors**

Farhad Karim

#### **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 previous 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 since incorporation

- 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

Cash Flow Summary		
(£ in millions)	2016	2017
Unlevered CF		
Loan Interest	1	1
Principal Loan Repayments	189	0
Overheads	(3)	(1)
Total Cash Flows	187	1

## **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 19 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:



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Farhad Karim  
*Director*

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 statements and auditor's report for the year ended 31 December 2017.

#### **Dividends**

The director does not recommend the payment of a dividend for the period (2016 : None).

#### **Directors'**

The director who served throughout the year and up to the date of this report was as follows:

- Farhad Karim

#### **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 previous year the last loan asset principal 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:



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Farhad Karim  
*Director*  
26 September 2018

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.

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## **Isobel AssetCo Limited**

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

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

##### **Opinion**

In our opinion the financial statements of Isobel Assetco Limited (the 'company'):

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

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

##### **Basis for opinion**

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

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

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

We draw attention to note 3 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

##### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

**Independent auditor's report to the members of Isobel AssetCo Limited**  
**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

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

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

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

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

~~We have nothing to report in respect of these matters.~~

**Use of our report**

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



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

27 September 2018

## Isobel AssetCo Limited

### Statement of comprehensive income for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
<b>Revenue</b>			
Interest income	6	1,380	127,374
<b>Total Revenue</b>		<b>1,380</b>	<b>127,374</b>
 Other gains and losses	7	 90	 1,847
<b>Operating expenses</b>			
Management and professional fees		(643)	(3,314)
General and administrative expenses		(81)	(416)
		<b>(724)</b>	<b>(3,730)</b>
Finance costs	11	(932)	(125,486)
<b>Profit before taxation</b>		<b>(186)</b>	<b>5</b>
Tax	12	190	(1)
<b>Profit for the year</b>		<b>4</b>	<b>4</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>4</b>	<b>4</b>

All income is derived from discontinued operations.

The notes on pages 13 to 26 form an integral part of the financial statements.

# Isobel AssetCo Limited

## Balance Sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
<b>Current assets</b>			
Cash and cash equivalents	18	2,249	3,432
Related party receivable	13	1,365	-
		<u>3,614</u>	<u>3,432</u>
<b>Total assets</b>		<u>3,614</u>	<u>3,432</u>
<b>Non-current liabilities</b>			
Deferred consideration liabilities	15	(3,530)	(2,613)
		<u>(3,530)</u>	<u>(2,613)</u>
<b>Current liabilities</b>			
Accruals and other payables	14	(60)	(798)
Current tax liabilities		-	(1)
		<u>(60)</u>	<u>(799)</u>
<b>Net current assets</b>		<u>3,554</u>	<u>2,633</u>
<b>Total liabilities</b>		<u>(3,591)</u>	<u>(3,412)</u>
<b>Net assets</b>		<u>24</u>	<u>20</u>
<b>Equity</b>			
Called up share capital	16	-	-
Retained earnings		24	20
<b>Total equity</b>		<u>24</u>	<u>20</u>

The notes on pages 13 to 26 form an integral part of the financial statements.

The statutory financial statements were approved by the director and authorised for issue on 26 September 2018 and were signed on their behalf by:

  
Farhad Karim  
Director

## Isobel AssetCo Limited

### Statement of changes in equity for the year ended 31 December 2017

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	-	16	16
Profit for the year and other comprehensive income	-	4	4
Balance at 31 December 2016	-	20	20
Balance at 1 January 2017	-	20	20
Profit for the year and other comprehensive income	-	4	4
Balance at 31 December 2017	-	24	24

The notes on pages 13 to 26 form an integral part of the financial statements.

# Isobel AssetCo Limited

## Cash flow statement for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>			
Cash used in operations	17	(3,569)	(3,100)
<b>Net cash used in operating activities</b>		<b>(3,569)</b>	<b>(3,100)</b>
<b>Cash flows from investing activities</b>			
Proceeds from loan repayments		90	189,168
Interest received		1,379	588
<b>Net cash generated from investing activities</b>		<b>1,469</b>	<b>189,756</b>
<b>Cash flows from financing activities</b>			
Payment of Deferred Consideration		917	(194,796)
<b>Net cash used in financing activities</b>		<b>917</b>	<b>(194,796)</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(1,183)</b>	<b>(8,140)</b>
Net opening cash and cash equivalents		3,432	11,572
<b>Net closing cash and cash equivalents</b>		<b>2,249</b>	<b>3,432</b>

The notes on pages 13 to 26 form an integral part of the financial statements.

# Isobel AssetCo Limited

## Notes to the financial statements

for the year ended 31 December 2017

### 1) General Information

Isobel AssetCo Limited is limited by shares 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 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

#### Annual Improvements to IFRSs 2014-2016 Cycle

The Group has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2014 – 2016 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

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRS that have been issued but not yet effective and in some cases not yet been adopted by the EU:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 28 Investments in Associate or Joint Ventures
IFRIC 22	Foreign Currency Transactions and Advanced Consideration
IFRIC 23	Uncertainty over Income Tax Treatments

The director does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

## **Isobel AssetCo Limited**

### **Notes to the financial statements for the year ended 31 December 2017**

#### **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.

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 Company with Group support if required 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 previous 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 amount 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 cost 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.



## **Isobel AssetCo Limited**

### **Notes to the financial statements**

for the year ended 31 December 2017

#### **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 part 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 that 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 fair value through profit or loss (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 subsequently 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.

## Isobel AssetCo Limited

### Notes to the financial statements for the year ended 31 December 2017

#### 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.

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##### *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.

## **Isobel AssetCo Limited**

### **Notes to the financial statements for the year ended 31 December 2017**

#### **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.

##### ***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 loan 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.

## Isobel AssetCo Limited

### Notes to the financial statements for the year ended 31 December 2017

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

##### 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.

##### 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 11 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.

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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 instrument 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 consider the Company as qualifying as an Investment Entity.

## **Isobel AssetCo Limited**

### **Notes to the financial statements**

for the year ended 31 December 2017

#### **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 director is 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 assesses at each balance sheet date whether there 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 2017

#### 6) Interest Income

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

	2017 £'000	2016 £'000
Interest on loans	1	125,809
Inter Company interest received	1,379	1,565
	<u>1,380</u>	<u>127,374</u>

Interest income from loans is recognised using the effective interest method as described in Note 3. Please see note 20 for overview of Related Party transactions.

#### 7) Other gains and losses

	2017 £'000	2016 £'000
Interest on impaired loans	90	615
Release of intercompany payment due	-	1,232
	<u>90</u>	<u>1,847</u>

#### 8) Auditor's remuneration

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

	2017 £'000	2016 £'000
Fees payable to the Company's auditor for the audit of the annual accounts	50	35

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

Fees payable to the Company's auditors for tax compliance and tax advice amounted to £81,000 in the current year.

There were no other non-audit services performed.

#### 9) Staff costs and director remuneration

The Company does not have any employees and no director received any remuneration during the year (2016: none).

#### 10) Dividends

The director's do not recommend the payment of a dividend for the year (2016: none).

#### 11) Finance costs

	2017 £'000	2016 £'000
<i>Borrowing costs on secured borrowings:</i>		
Charge of deferred consideration liability	(917)	(123,921)
Failed sale expense	(15)	(1,565)
	<u>(932)</u>	<u>(125,486)</u>

## Isobel AssetCo Limited

### Notes to the financial statements for the year ended 31 December 2017

<b>12) Tax charge</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Current taxation		
• UK corporation tax for the year	<u>190</u>	<u>(1)</u>

The effective tax rate of 19.0% (2016: 20.0%) per cent is equal to the standard rate of corporation tax in the UK.

<b>13) Related party receivable</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Receivable from Isobel Loan Capital Limited	<u>1,365</u>	<u>-</u>

<b>14) Accruals and other payables</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Accruals	(60)	(798)
	<u>(60)</u>	<u>(798)</u>

<b>15) Deferred consideration liabilities</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Opening balance	(2,613)	(73,488)
Payment of Ordinary Deferred Consideration	-	171,930
Payment of Special Deferred Consideration	-	22,866
Charge reported in finance costs	(917)	(123,921)
Closing balance	<u>(3,530)</u>	<u>(2,613)</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.

<b>16) Share capital</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
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.

## Isobel AssetCo Limited

### Notes to the financial statements for the year ended 31 December 2017

<b>17) Notes to the cash flow statement</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
(Loss) / profit for the year	(186)	5
<i>Adjustments for:</i>		
Interest income	(1,380)	(127,374)
Release of Intercompany Payment due	(90)	(1,232)
Finance costs	-	125,486
Corporation tax credited to profit and loss	190	-
<i>Operating cash flows before movements in working capital</i>	<u>(1,466)</u>	<u>(3,115)</u>
(Increase) / decrease in prepayments and other receivables	(1,365)	153
Decrease in accruals	(738)	(137)
<b>Net cash outflow from operating activities</b>	<b><u>(3,569)</u></b>	<b><u>(3,099)</u></b>
 <b>18) Cash and cash equivalents</b>	 <b>2017</b>	 <b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Cash and bank balances	<b><u>2,249</u></b>	<b><u>3,432</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.

#### 19) Financial instruments

##### Capital risk management

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

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

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##### 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.



## Isobel AssetCo Limited

### Notes to the financial statements for the year ended 31 December 2017

#### 19) 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. The Company's receivables are from Isobel Loan Capital Limited, a fellow company within the Isobel Holdco Limited Group. As such, the credit risk is now determined by the directors to be negligible.

##### 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.

	2017	Par value	Interest rate	0 - 1 year	1 - 5 years	5+ years	Total
Non-interest bearing		60	nil	60	-	-	60
		<u>60</u>		<u>60</u>	<u>-</u>	<u>-</u>	<u>60</u>
	2016	Par value	Interest rate	0 - 1 year	1 - 5 years	5+ years	Total
Non-interest bearing		798	nil	798	-	-	798
		<u>798</u>		<u>798</u>	<u>-</u>	<u>-</u>	<u>798</u>

There were no fixed interest rate loans in 2017 (2016: none).

## Isobel AssetCo Limited

### Notes to the financial statements for the year ended 31 December 2017

#### 20) Related Parties

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

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

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

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

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

The following 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:	2017 £'000	2016 £'000
Payment of Ordinary Deferred Consideration	-	128,948
	<u>-</u>	<u>128,948</u>

	2017 £'000	2016 £'000
<b>The following amounts were outstanding at balance sheet date:</b>		
Deferred consideration - RBS plc	2,647	-
	<u>2,647</u>	<u>-</u>

## Isobel AssetCo Limited

### Notes to the financial statements

for the year ended 31 December 2017

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>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Management fee	17	571
Reimbursement of costs	-	1,500
Payment of Ordinary Deferred Consideration	-	42,983
Payment of Special Deferred Consideration	-	22,866
	<b>17</b>	<b>67,920</b>

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Deferred consideration - Isobel Holdings SarL plc	883	-

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Interest Income	1,379	1,565
Profit Allocation Expense	(14)	(945)
Interest Expense	-	(1,565)

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Related Party Receivable	1,365	-

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

#### **20) 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 subsequent to the period ended 31 December 2017.