

Company Registration No. 07873210

Isobel Mezzanine Borrower Limited

Annual report and financial statements for the year ended
31 December 2014

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COMPANIES HOUSE

Company Registration No. 7811406

Isobel HoldCo Limited

Annual report and financial statements for the year ended
31 December 2014

Isobel HoldCo Limited

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Isobel HoldCo Limited

Officers and professional advisors

Directors

Joseph Pedlow
Robert Harper
Alistair Aitken (appointed 28th April 2014)
Andrew Pinfield (appointed 28th April 2014)
Rajesh Sivaraman (appointed 28th April 2014)
Mark Bailie (resigned 28th April 2014)
Laura Barlow (resigned 28th April 2014)
Paul Sullivan (resigned 28th April 2014)

Registered office

40 Berkeley Square
London
United Kingdom
W1J 5AL

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Manager

Blackstone Real Estate Debt Advisors UK Limited
40 Berkeley Square
London
United Kingdom
W1J 5AL
(January 2014 - July 2014)

The Blackstone Group International Partners
40 Berkeley Square
London
United Kingdom
W1J 5AL
(August 2014 - December 2014)

Isobel HoldCo Limited

Strategic report

Background

Isobel Holdco Limited and its subsidiaries (the "Group"), and Isobel HoldCo Limited (the "Company"), 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.

The purchase was part funded by £553m of senior debt and £327m of junior debt which, after 9 months was securitised and separate listed rated Notes via Isobel Finance No 1 Limited and Isobel Finance No 2 Limited, were issued against them.

Principal activity

The principal activity of the Group, following repayment and recoveries of a number of loans, is the management of the remaining portfolio of commercial real estate backed loan assets.

Strategy and objectives

At inception of trading all stakeholders agreed a business plan against which the Group'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). The recovery category under which repayment is received is also monitored and can either be through repayment by the borrower, enforcement and disposing of the underlying real estate, an active restructure or disposal of the loan.

Review of performance

- The current portfolio face value is £322m, reduced from £1.36bn at acquisition
- 25 of the 29 loans in the portfolio have been disposed or repaid, including 14 loans exited during 2014.

Actual cash flows

| Cash Flow Summary (£ in millions) | 2013A | 2014A |
|--------------------------------------|-------|-------|
| Unlevered CF as of Q4 14 | | |
| Interest Income | 24 | 12 |
| Loan Repayments | 491 | 310 |
| Overheads/ Frictionals | (7) | (5) |
| Swaption | 5 | 4 |
| Total Cash Flows | 506 | 320 |

2014 has been another very successful year for the Group with net cash collections of £310m from the exit of 14 portfolio loans.

Isobel HoldCo Limited

Strategic report

Principal risks and uncertainties

The principal risks that the Group faces are credit, liquidity and interest rate risk. These risks, and how the Group manages these risks are discussed in note 22 of the financial statements.

The directors' are of the opinion that the Group continues to be in a strong position to manage the performance and repayment of its investment loan assets.

The Board reviews and agrees policies for managing risks arising on the Group.

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 junior borrowings accrue interest at a fixed rate.

Credit risk

The principal credit risks to the Group is that the borrowers on the loan assets will not be able to meet their obligations as they fall due and / or that commercial real estate values significantly decrease in the short term. The carrying value of the properties, forming collateral for the Group's loan assets, sufficiently cover the carrying value of the loan assets. The Group's manager actively manages the portfolio and assesses recoverability under different scenarios and adjusting recovery strategies, when required, to maximise the recovery for the Group.

Liquidity risk

When providing funding to the Group, the debt and equity holders provided funds to allow the Group to maintain sufficient liquidity reserves to meet its obligations. The senior funding agreement has been drafted to allow for operating expenses to be paid before the senior borrowing receives any interest or principal repayments.

During the year, the Senior loan was repaid. The Junior funding agreement has been drafted under the same conditions as the senior.

Approved by the Board and signed on its behalf by:



Robert Harper
Director

17th April 2015

40 Berkeley Square
London
W1J 5AJ

Isobel HoldCo Limited

Directors' report

The directors' presents their report on the affairs of the Group, together with the financial statement and auditor's report for the year ended 31 December 2014.

Dividends

The directors' do not recommend the payment of a dividend for the period (2013 : None).

Directors

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

- Joseph Pedlow
- Robert Harper
- Alistair Aitken (appointed 28th April 2014)
- Andrew Pinfield (appointed 28th April 2014)
- Rajesh Sivaraman (appointed 28th April 2014)
- Mark Bailie (resigned 28th April 2014)
- Laura Barlow (resigned 28th April 2014)
- Paul Sullivan (resigned 28th April 2014)

Directors' indemnity

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

Going concern

The Group has sufficient liquid resources to cover its liquidity requirements. The ability of the Group to repay its borrowings is dependant on the cash inflows it receives from its investment in loans. These cash inflows include interest and principal receipts. The Group's borrowings are long-term and are repayable to the extent that collections are made on the loan assets. Furthermore, the Group holds sufficient liquid reserves to cover short-term creditors. 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.

Although the Group only has a net asset value of £22,000 an analysis of future expected cash flows confirms that the Group is expected to generate positive net cash flows. The future profitability of the Group is expected as the effective interest rates used to discount the loan assets exceeds the rate at which interest is charged on the borrowings.

After making enquiries, the directors' have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Isobel HoldCo Limited

Directors' report

Auditor


Each 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 Group's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's 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:



Robert Harper
Director

17th April 2015

40 Berkeley Square
London
W1J 5AJ

Isobel HoldCo Limited

Directors' responsibilities statement

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

Company law requires the directors' to prepare financial statements for each financial year. Under that law the directors' have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors' must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group 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 group's ability to continue as a going concern.

The directors' are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable him to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Isobel HoldCo Limited

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

We have audited the financial statements of Isobel HoldCo Limited for the year ended 31 December 2014 which comprise the Group statement of Comprehensive Income, Group and Company Balance Sheet, Group Statement of Changes in Equity, Group and Company 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 Group'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 Group'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 Group and the Group'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 directors' are 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 Group'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 Group's affairs as at 31 December 2014 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.

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.

Isobel HoldCo Limited

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

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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Calum Thomson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

17th April 2015.

Isobel HoldCo Limited

Group Statement of comprehensive income for the year ended 31 December 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|-------------------------------------|-------|----------------|----------------|
| Revenue | | | |
| Interest income | 6 | 82,318 | 128,010 |
| Total Revenue | | 82,318 | 128,010 |
| Other gains and losses | 7 | (2,644) | (62,797) |
| Operating expenses | | | |
| Management and professional fees | | (4,860) | (7,144) |
| General and administrative expenses | | (700) | (865) |
| | | (5,560) | (8,009) |
| Finance costs | 11 | (74,109) | (57,199) |
| Profit before taxation | 8 | 5 | 5 |
| Tax | 12 | (1) | (1) |
| Profit for the year | | 4 | 4 |
| Other comprehensive income | | - | - |
| Total profit for the year | | 4 | 4 |

All income is derived from continuing operations.

The notes on pages 1 to 28 for an integral part of the financial statements.

Isobel HoldCo Limited

Group and Company Balance Sheet

As at 31 December 2014

| | | 2014 | | 2013 | |
|------------------------------------|------|------------------|------------------|------------------|------------------|
| | Note | Group £'000 | Company £'000 | £'000 | Company £'000 |
| Non-current assets | | | | | |
| Investment in loans | 13 | 73,678 | - | 314,955 | - |
| Derivative financial instruments | 15 | - | - | 3,550 | - |
| | | 73,678 | - | 318,505 | - |
| Current assets | | | | | |
| Prepayments and other receivables | | - | 10 | - | 10 |
| Cash and cash equivalents | 21 | 31,050 | - | 155,228 | - |
| | | 31,050 | 10 | 155,228 | 10 |
| Total assets | | 104,728 | 10 | 473,733 | 10 |
| Non-current liabilities | | | | | |
| Borrowings | 17 | (11,702) | - | (431,747) | - |
| Deferred consideration liabilities | 18 | (91,071) | - | (33,638) | - |
| | | (102,773) | - | (465,385) | - |
| Current liabilities | | | | | |
| Accruals and other payables | 16 | (1,932) | - | (8,328) | - |
| Current tax liabilities | | (1) | - | (2) | - |
| | | (1,933) | - | (8,330) | - |
| Net current assets | | 29,117 | 10 | 146,898 | 10 |
| Total liabilities | | (104,706) | - | (473,715) | - |
| Net assets | | 22 | 10 | 18 | 10 |
| Equity | | | | | |
| Called up share capital | 19 | 10 | 10 | 10 | 10 |
| Retained earnings | | 12 | - | 8 | - |
| Total equity | | 22 | 10 | 18 | 10 |

The notes on pages 1 to 28 for an integral part of the financial statements.

The statutory financial statements were approved by the directors and authorised for the issue on 17th April 2015 and were signed on their behalf by:



Robert Harper
Director

Isobel HoldCo Limited

Group Statement of changes in equity for the year ended 31 December 2014

| | Share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|------------------------------------|---------------------------|-------------------------------|--------------------------|
| Group | | | |
| Balance at 1 January 2013 | 10 | 4 | 14 |
| Profit for the year | - | 4 | 4 |
| Balance at 31 December 2013 | 10 | 8 | 18 |
| Balance at 1 January 2014 | 10 | 8 | 18 |
| Profit for the year | - | 4 | 4 |
| Balance at 31 December 2014 | 10 | 12 | 22 |

The notes on pages 1 to 28 for an integral part of the financial statements.

Isobel HoldCo Limited

Group and Company Cash flow statement for the year ended 31 December 2014

| | Notes | 2014 | | 2013 | |
|---|-------|------------------|------------------|------------------|------------------|
| | | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| Cash flows from operating activities | | | | | |
| Cash used in operations | 20 | (6,021) | - | (8,365) | - |
| Net cash used in operating activities | | (6,021) | - | (8,365) | - |
| Cash flows from investing activities | | | | | |
| Proceeds from loan repayments | | 309,512 | - | 490,937 | - |
| Disposal of derivative financial instrument | | 3,550 | - | 4,700 | - |
| Interest received | | 11,721 | - | 24,320 | - |
| Net cash from investing activities | | 324,783 | - | 519,956 | - |
| Cash flows from financing activities | | | | | |
| Cash flow from repayment of borrowings | | (426,073) | - | (331,827) | - |
| Borrowing costs paid | | (16,866) | - | (65,531) | - |
| Net cash used in financing activities | | (442,940) | - | (397,358) | - |
| Net (decrease) / increase in cash and cash equivalents | | (124,178) | - | 114,233 | - |
| Net opening cash and cash equivalents | | 155,228 | - | 40,995 | - |
| Net closing cash and cash equivalents | | 31,050 | - | 155,228 | - |

The notes on pages 1 to 28 for an integral part of the financial statements.

Isobel HoldCo Limited

Notes to the financial statements for the year ended 31 December 2014

1) General information

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

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group and the Company operates.

2) Adoption of new and revised Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

| | |
|-----------------------------|--|
| IFRS 9 | <i>Financial Instruments</i> |
| IFRS 11 (amended) | <i>Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)</i> |
| IAS 16 and IAS 38 (amended) | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> |
| IAS 19 (amended) | <i>Defined Benefit Plans : Employee Contributions</i> |
| IFRS 14 | <i>Regulatory Deferral Accounts</i> |
| Improvements 2012 | <i>Annual Improvements to IFRSs: 2010-2012 Cycle</i> |
| Improvements 2013 | <i>Annual Improvements to IFRSs: 2011-2013 Cycle</i> |
| IFRS 15 | <i>Revenue from Contracts with Customers</i> |
| IAS 16 and IAS 41 (amended) | <i>Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)</i> |
| Amendments to IAS 27 | <i>Equity Method in Separate Financial Statements (Amendments to IAS 27)</i> |
| IFRS 10/IAS 28 (amended) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> |
| Improvements 2014 | <i>Annual Improvements to IFRSs: 2012-2014</i> |
| IFRIC 21 | <i>Leases</i> |

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

The Group has adopted the amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of Interests in other entities' and IAS 27 'Investment Entities' for the first time in the current year. The directors' do not expect that the adoption of the standards above will have a material impact on the financial statements of the Group and Company.

Isobel HoldCo Limited

Notes to the financial statements

for the year ended 31 December 2014

3) Significant accounting policies

Basis of accounting

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

The consolidated 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 Directors' have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' report on page 4.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group 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

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.

Financial instruments

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

Isobel HoldCo Limited

Notes to the financial statements for the year ended 31 December 2014

3) Significant accounting policies (continued)

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 exactly 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.

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.

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.

Isobel HoldCo Limited

Notes to the financial statements

for the year ended 31 December 2014

3) Significant accounting policies (continued)

Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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 re-measurement 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 Group 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 re-measurement 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.

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.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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 Group selling the loan assets.

Derecognition of financial liabilities

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

Isobel HoldCo Limited

Notes to the financial statements for the year ended 31 December 2014

3) Significant accounting policies (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently premasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in Group Statement of Comprehensive Income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in Group Statement of Comprehensive Income depends on the nature of the hedge relationship. The Group 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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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.

Isobel HoldCo Limited

Notes to the financial statements

for the year ended 31 December 2014

3) Significant accounting policies (continued)

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 Group'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 Group. 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.

Isobel HoldCo Limited

Notes to the financial statements for the year ended 31 December 2014

4) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group'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 Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

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.

Impairment

The Group 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.

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 Group and the judgements and estimates used to value them.

5) Segment reporting

The Group only has one business segment: Investment in loan assets which all originate in the United Kingdom. The directors' consider all the relevant information relating to the primary segment disclosed in these financial statements.

Isobel HoldCo Limited

Notes to the financial statements for the year ended 31 December 2014

6) Interest income

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

| | 2014 £'000 | 2013 £'000 |
|----------------------------|---------------|----------------|
| Interest on loans | 79,990 | 110,072 |
| Interest on impaired loans | 2,328 | 17,938 |
| | <u>82,318</u> | <u>128,010</u> |

Interest income from loans is recognised using the effective interest method as described in Note 3 and 4. Please see note 25 for overview of Related Party transactions.

7) Other gains and losses

| | 2014 £'000 | 2013 £'000 |
|--|----------------|-----------------|
| Change in fair value of derivative financial asset | - | (11,242) |
| Impairment of investment loans | (2,644) | (51,555) |
| | <u>(2,644)</u> | <u>(62,797)</u> |

8) Auditor's remuneration

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

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Fees payable to the Company's auditor for the audit of the annual accounts | 35 | - |
| Fees payable to the Group's auditor for the audit of the Company's subsidiaries annual accounts | 40 | 140 |
| Total audit fees | <u>75</u> | <u>140</u> |

9) Staff costs

The Group did not have any employees and no director received any remuneration during the year (2013: none).

10) Dividends

The directors' do not recommend the payment of a dividend for the year (2013: none).

11) Finance costs

| | 2014 £'000 | 2013 £'000 |
|---|-----------------|-----------------|
| <i>Borrowing costs on secured borrowings:</i> | | |
| Interest on borrowings | (10,918) | (41,075) |
| Charge of deferred consideration liability | (57,433) | (5,449) |
| Swap Adjustment | 270 | - |
| Amortisation of finance charges | (6,028) | (10,675) |
| | <u>(74,109)</u> | <u>(57,199)</u> |

Isobel HoldCo Limited

Notes to the financial statements for the year ended 31 December 2014

| 12) Tax charge | 2014 | 2013 |
|-----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Current taxation | | |
| • UK corporation tax for the year | <u>(1)</u> | <u>(1)</u> |

The effective tax rate of 21.5% (2013: 23.5%) per cent is equal to the blended standard rate of corporation tax in the UK.

| 13) Investment in loans | 2014 | 2013 |
|--------------------------------|---------------|----------------|
| | £'000 | £'000 |
| Investment in loans | <u>73,678</u> | <u>314,955</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.

| 14) Investment in subsidiaries | Company | |
|---------------------------------------|----------------|-------------|
| | 2014 | 2013 |
| | £ | £ |
| | <u>100</u> | <u>100</u> |

There were no acquisitions or disposals during the year.

| | <i>Registration Number</i> | <i>Share of ordinary allotted capital and voting rights</i> | <i>Country of registration</i> |
|--|----------------------------|---|--------------------------------|
| Isobel Mezzanine Borrower Limited | 7873210 | 100% | England |
| The Company's indirect subsidiary's are: | | | |
| Isobel Intermediate HoldCo Limited | 7813209 | 100% | England |
| Isobel AssetCo Limited | 7815679 | 100% | England |
| Isobel Loan Capital Limited | 7815722 | 100% | England |
| Isobel EquityCo Limited | 7816534 | 100% | England |

For the year ended 31 December 2014, Isobel EquityCo Limited with registration number 7816534, was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies.

| 15) Derivative financial instruments | 2014 | 2013 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Financial assets carried at fair value through profit and loss: | | |
| • Interest rate swap option | <u>-</u> | <u>3,550</u> |

Further details of derivative financial instruments are provided in Note 24.

Isobel HoldCo Limited

Notes to the financial statements for the year ended 31 December 2014

| | | |
|---|------------------------|-------------------------|
| 16) Accruals and other payables | 2014 | 2013 |
| | £'000 | £'000 |
| Interest accruals | (808) | (6,743) |
| Accruals | (1,124) | (1,585) |
| | <u>(1,932)</u> | <u>(8,328)</u> |
| 17) Borrowings | | |
| | 2014 | 2013 |
| | £'000 | £'000 |
| Non-current borrowings | | |
| <i>Secured borrowings at amortised cost</i> | | |
| Senior loan | - | (168,491) |
| Junior loan | (11,960) | (269,542) |
| Unamortised borrowing costs | 258 | 6,286 |
| | <u>(11,702)</u> | <u>(431,747)</u> |

All borrowings are denominated in Pound sterling and were drawn on 12 January 2012.

Senior loan

The senior loan has a draw down facility of £600m of which £553.3m has been utilised. The facility lender is Isobel Finance No.1 plc, which has issued listed bonds against this loan on the Irish Stock Exchange.

The loan had a maturity date of 10 January 2016 and was repaid April 2014.

Junior loan

The junior loan facility lender is Isobel Finance No.2 plc, which has issued listed bonds against this loan on the Jersey Stock Exchange.

The loan has a maturity date of 10 October 2038. Interest is charged at a fixed rate of 8% which may be capitalised against the loan if not paid. At 31 December 2014 all previously capitalised interest had been paid.

The borrowings have security over the loan assets and cash balances held by the Group.

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Notes to the financial statements for the year ended 31 December 2014

| 18) Deferred consideration liabilities | 2014 | 2013 |
|---|-----------------|-----------------|
| | £'000 | £'000 |
| Opening balance | (33,638) | (28,188) |
| (Charge) reported in finance costs | (57,433) | (5,450) |
| Closing balance | (91,071) | (33,638) |

No payment occurred during the reporting period and no payment is expected within the next 12 months so the entire balance is considered non-current.

The deferred consideration liabilities comprise both the Ordinary deferred and Special deferred consideration liabilities. The Special deferred consideration is only payable once previously agreed performance hurdles are achieved.

19) Share capital

| | Group / Company | |
|--------------------------|------------------------|--------------|
| | £ | £ |
| | £'000 | £'000 |
| Opening balance | 10 | 10 |
| Movement during the year | - | - |
| Closing balance | 10 | 10 |

The Company has one class of ordinary shares.

| 20) Notes to the cash flow statement | 2014 | 2013 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Profit for the year | 5 | 5 |
| <i>Adjustments for:</i> | | |
| Change in fair value of derivative financial asset | - | 11,242 |
| Interest income | (82,318) | (128,010) |
| Impairment of investment loans | 2,644 | 51,555 |
| Finance costs | 74,109 | 57,199 |
| <i>Operating cash flows before movements in working capital</i> | <i>(5,560)</i> | <i>(8,009)</i> |
| Decrease in prepayments and other receivables | - | 18 |
| Decrease in accruals | (461) | (374) |
| Net cash outflow from operating activities | (6,021) | (8,365) |

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Notes to the financial statements for the year ended 31 December 2014

| 21) Cash and cash equivalents | 2014 £'000 | 2013 £'000 |
|--------------------------------------|-----------------------|-----------------------|
| Cash and bank balances | <u>31,050</u> | <u>155,228</u> |

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 Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's strategy has remained unchanged throughout the reporting year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Note 18 after deducting cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes of equity.

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

Financial risk management objectives

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

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group may enter into derivative financial instruments to manage its exposure to interest rate risk.

The Group is not currently exposed to any risk associated with price movements of equities. With regard to foreign currency risk, the Group will occasionally pay suppliers in foreign currency per the terms of any contract but has no other foreign currency exposure. At the balance sheet date there was no foreign currency exposure.

Interest rate risk management

Previously the Group 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.

On 5 April 2012 the Group purchased seven options on interest rate swaps each having a notional amount of £73m. All seven Swaptions had a maturity date of 15 June 2025 and had effective dates spread between 15 December 2014 and 15 December 2018. Due to resolving a number of loan assets and the decreasing senior debt balance and hence the exposure to floating interest rate paid, it was decided to dispose of four of the earliest effective date swaptions in 2013 and the remaining three in 2014. The proceeds from the disposal were used to repay senior debt.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this Note.

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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. The Group's loan assets and associated receivables are secured against property assets. The loans owned by the Group are a mixture of senior, junior and mezzanine funding reflecting a range of credit risk. The loans were acquired at a discount against par which reflect the range in creditworthiness of the Group's counterparties as compared to the level of security, the loan to value ratios of the underlying counterparties plus market factors such as the effect of the margins at the time the loan was entered into.

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

| | 2014 | 2013 |
|-----------------------|---------------|----------------|
| | £'000 | £'000 |
| Senior loan assets | 17,357 | 257,962 |
| Junior loan assets | 16,613 | 24,445 |
| Mezzanine loan assets | 39,708 | 32,549 |
| | 73,678 | 314,956 |

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Notes to the financial statements for the year ended 31 December 2014

22) Financial instruments (continued)

Ultimate responsibility for liquidity risk management rests with the board of directors', which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows.

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

The following table details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. However, under the terms of both the junior and senior loan facilities, as proceeds from the loan assets are recovered, a certain proportion of the proceeds are required to be used to repay these facilities. Given the timing of recoveries under the loan assets is uncertain and not guaranteed on maturity of those assets, no adjustments to the cash flows shown in the table below have been made for these repayments.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

| | Par value | Interest rate | 0 - 1 year | 1 - 5 years | 5+ years | Total |
|------------------------|----------------|---------------|----------------|----------------|----------|----------------|
| 2014 | | | | | | |
| Non-interest bearing | 1,932 | nil | 1,932 | - | - | 1,932 |
| Fixed interest rate | 11,960 | 8.00% | - | 11,960 | - | 11,960 |
| | <u>13,892</u> | | <u>1,932</u> | <u>11,960</u> | <u>-</u> | <u>13,892</u> |
| 2013 | | | | | | |
| Non-interest bearing | 8,328 | nil | 8,328 | - | - | 8,328 |
| Variable interest rate | 168,491 | 5.05% | 168,491 | - | - | 168,491 |
| Fixed interest rate | 269,543 | 8.00% | - | 269,543 | - | 269,543 |
| | <u>446,362</u> | | <u>176,819</u> | <u>269,543</u> | <u>-</u> | <u>446,362</u> |

Fair value of financial instruments

The directors' consider that the carrying amounts of financial assets and financial liabilities that are not measured at fair value on a recurring basis, are approximate to their fair values.

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23) 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 Group.

The Group 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 Group'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 Group 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.

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

| The following amounts were outstanding at balance sheet date: | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Deferred consideration - RBS plc | 55,235 | 20,675 |
| Deferred consideration - Natwest plc | 13,069 | 4,892 |
| Deferred consideration - Isobel Holdings SarL plc | 22,768 | 8,522 |
| | <u>91,072</u> | <u>34,089</u> |

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

| | 2014 £'000 | 2013 £'000 |
|------------------------|---------------|---------------|
| Management fee | 1,632 | 3,122 |
| Reimbursement of costs | 2,000 | 2,000 |
| | <u>3,632</u> | <u>5,122</u> |

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

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Notes to the financial statements for the year ended 31 December 2014

24) Events after the reporting period

Since the end of the year, the directors of the Group are not aware of any other matter or circumstance not otherwise dealt with in the financial report or the directors' report that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in financial years subsequent to the year ended 31 December 2014.