MENLO INVESTMENTS LIMITED

# Directors' Report and Financial Statements
For the year ended 31 December 2016



REGISTERED NUMBER IN ENGLAND & WALES: 3479178

# MENLO INVESTMENTS LIMITED
Registered Number in England & Wales: 3479178

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## DIRECTORS' REPORT
## For the year ended 31 December 2016

The directors present their annual report together with the audited financial statements of Menlo Investments Limited (the 'Company') for the year ended 31 December 2016.

### Profit and dividends

During the year the Company made a profit after tax of £51,090,342 (2015: £83,560,785). The directors do not recommend the payment of a dividend (2015: £nil).

### Post balance sheet events

On 21 April 2017:
- the Company's derivative positions were terminated at their fair value by agreement with Westferry Investments Limited, giving rise to no gain or loss;
- the Company requested early repayment of its loans to Barclays Bank PLC and to Westferry Investments Limited;
- Westferry Investments Limited repaid its loans to the Company; and
- the Company put the resulting cash on interest bearing deposit with its parent.

### Directors

The directors of the Company, who served during the year and up to the date of signing the financial statements, together with their dates of appointment and resignation, where appropriate, are as shown below:

| | |
|---|---|
| R Craine | (resigned 8 January 2016) |
| C Gyte | (resigned 8 January 2016) |
| B Hill | (resigned 8 January 2016) |
| C Le Neve Foster | (appointed 19 January 2016) |
| N Minns | (resigned 18 March 2016) |
| C Senior | (appointed 19 January 2016) |
| V Shah | (appointed 19 January 2016) |
| A Jordanov | (appointed 1 April 2016; resigned 23 September 2016) |
| PB Voisey | (appointed 29 September 2016) |

### Statement of directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' report set out on pages 6 and 7 is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Act 2006 to prepare accounts for each financial year. The directors have prepared the accounts in accordance with International Financial Reporting Standards ('IFRS') to present fairly the financial position of the Company and the performance for that period. The Companies Act 2006 provides, in relation to such accounts, that references to accounts giving a true and fair view are references to fair presentation.

**DIRECTORS' REPORT(continued)**
**For the year ended 31 December 2016**

**Statement of directors' responsibilities(continued)**

The directors consider that in preparing the financial statements on pages 8 to 29:

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates;
- that all the accounting standards which they consider to be applicable have been followed; and
- that the financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure 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.

*Going Concern*

After reviewing the Company's performance projections, the available banking facilities and taking into account the support available from Barclays Bank Plc, the directors are satisfied that the Company has adequate access to resources to enable it to meet its obligations and to continue in operational existence for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing these financial statements.

**Financial Risk Management**

The Company's activities are exposed to a variety of financial risks. The Company is required to follow the requirements of the Group risk management policies, which include specific guidelines on the management of foreign exchange, interest rate and credit risks, and advice on the use of financial instruments to manage them. The main financial risks that the Company is exposed to are outlined in Note 17.

**Directors' third party indemnity provisions**

Qualifying third-party indemnity provisions were in force (as defined by section 234 of the Companies Act 2006) during the course of the financial year ended 31 December 2016 for the benefit of the then directors and, at the date of this report, are in force for the benefit of the directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties, powers or office.

**Creditor payment policy**

The principal activity of the Company is the provision of financial services. It does not have trade creditors and as such the disclosure of a creditors' payment policy is not applicable.

**Independent Auditors**

PricewaterhouseCoopers LLP has held office in accordance with Section 487 of the Companies Act 2006 for the 2016 financial year. Following a rigorous tender process conducted by the Barclays PLC Audit Committee, KPMG LLP will assume the role as independent auditors for the Barclays PLC Group, of which the Company is a member, for the year-end 31 December 2017. Formal appointment as auditors to the Company will be completed after the approval of these financial statement.

**Statement of disclosure of information to Auditors**

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

FOR AND ON BEHALF OF THE BOARD

Name: Carl Senior
Director
Date: 12 May 2017

MENLO INVESTMENTS LIMITED
Registered Number in England & Wales: 3479178

STRATEGIC REPORT
For the year ended 31 December 2016

## Review and principal activities

The principal activities of the Company are to act as an investment company. No significant change in this activity is envisaged in the foreseeable future. The directors expect the Company to continue to derive positive returns from its investments in the coming year.

## Business performance

The results of the Company show a profit before tax for 2016 of £66,543,797 (2015: £104,773,914). As at 31 December 2016 the Company had net assets of £225,322,874 (2015: £174,232,532).

## Future outlook

The directors have reviewed the Company's business and performance and consider it to be satisfactory for the year. The Company has terminated a number of its loan and derivative positions and has reinvested the net proceeds. Accordingly, the directors expect the Company to continue to derive positive returns from its investments in the coming year.

## Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Barclays PLC group and are not managed separately. Accordingly, the principal risks and uncertainties of Barclays PLC, which include those of the Company, are discussed in the Barclays PLC 2016 annual report which does not form part of this report.

## Key performance indicators

The directors of Barclays PLC manage the group's operations on a business cluster basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Company, is discussed in the Barclays PLC 2016 annual report which does not form part of this report.

FOR AND ON BEHALF OF THE BOARD

Name: Carl Senior
Director
Date: 12 May 2017

# *Independent auditors' report to the members of Menlo Investments Limited*

## Report on the financial statements

### Our opinion

In our opinion, Menlo Investments Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## 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 addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Lawrence Wilkinson

Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 May 2017

MENLO INVESTMENTS LIMITED
Registered Number in England & Wales: 3479178

## INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | £ | £ |
| Interest income | 5 | 33,389,174 | 42,700,242 |
| Interest expense | 6 | (18,238,774) | (19,862,989) |
| Fair value gains on settlement of loans | 7 | 313,275 | 55,127,513 |
| Fair value gains and losses | 8 | 51,080,122 | 26,809,148 |
| Profit before tax | 9 | 66,543,797 | 104,773,914 |
| Tax | 10 | (15,453,455) | (21,213,129) |
| Profit for the year | | 51,090,342 | 83,560,785 |

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

Profit for the year is derived from continuing activities. All recognised income and expenses have been reported in the income statement, hence no statement of comprehensive income has been included in the financial statements.

## MENLO INVESTMENTS LIMITED
Registered Number in England & Wales: 3479178

### BALANCE SHEET
### AS AT 31 DECEMBER 2016

| | Note | 31 December 2016 £ | 31 December 2015 £ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 11 | 250,000 | 250,000 |
| **Total non-current assets** | | 250,000 | 250,000 |
| **Current assets** | | | |
| Loans and other receivables | 12 | 3,432,587,822 | 3,178,801,277 |
| Cash and cash equivalents | | 1,506,669 | 676,377 |
| **Total current assets** | | 3,434,094,491 | 3,179,477,654 |
| **TOTAL ASSETS** | | 3,434,344,491 | 3,179,727,654 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Current tax liability | | (34,206,433) | (24,609,229) |
| Amounts owed to group undertakings | 13 | (2,987,883,357) | (2,980,885,893) |
| Derivative financial instruments | 14 | (186,931,827) | - |
| **Total current liabilities** | | (3,209,021,617) | (3,005,495,122) |
| **Net current assets** | | 225,072,874 | 173,982,532 |
| **NET ASSETS** | | 225,322,874 | 174,232,532 |
| **SHAREHOLDER'S EQUITY** | | | |
| Called up share capital | 15 | 100,000 | 100,000 |
| Retained earnings | | 225,222,874 | 174,132,532 |
| **TOTAL EQUITY** | | 225,322,874 | 174,232,532 |

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

The financial statements were approved by the Board of Directors and authorised for issue on 12 May 2017 and were signed on its behalf by:

Name of Director
Carl Senior

MENLO INVESTMENTS LIMITED
Registered Number in England & Wales: 3479178
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

| | Called up share capital £ | Retained earnings £ | Total equity £ |
|---|---|---|---|
| **Balance at 1 January 2016** | 100,000 | 174,132,532 | 174,232,532 |
| *Profit for the year* | - | 51,090,342 | 51,090,342 |
| **Balance at 31 December 2016** | 100,000 | 225,222,874 | 225,322,874 |

| | Called up share capital £ | Retained earnings £ | Total equity £ |
|---|---|---|---|
| **Balance at 1 January 2015** | 100,000 | 90,571,747 | 90,671,747 |
| Profit for the year | - | 83,560,785 | 83,560,785 |
| **Balance at 31 December 2015** | 100,000 | 174,132,532 | 174,232,532 |

## MENLO INVESTMENTS LIMITED
Registered Number in England & Wales: 3479178

### CASH FLOW STATEMENT
### FOR THE YEAR ENDED 31 DECEMBER 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | £ | £ |
| CASH FLOWS USED IN OPERATING ACTIVITIES | 16 | (35,585,509) | (700,840,323) |
| Interest and settlement gains received | | 58,131,415 | 99,846,478 |
| Interest paid | | (19,549,925) | (17,323,694) |
| Tax paid | | (5,856,251) | - |
| **Cash flows used in operating activities** | | (2,860,270) | (618,317,539) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Loans (extended)/redeemed during the year | | (201,069,103) | 944,488,701 |
| Proceeds from derivatives investments | | 196,451,051 | - |
| **Net cash (used in)/from investing activities** | | (4,618,052) | 944,488,701 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from/(repayment of) borrowed funds | | 8,308,614 | (320,822,008) |
| **Net cash from/(used in) financing activities** | | 8,308,614 | (320,822,008) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 830,292 | 5,349,154 |
| Cash and cash equivalents/(overdraft) at 1 January | | 676,377 | (4,672,697) |
| **CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER** | | 1,506,669 | 676,457 |
| **CASH AND CASH EQUIVALENTS COMPRISE:** | | | |
| Cash in hand | | 1,506,669 | 676,377 |
| | | 1,506,669 | 676,377 |

The accompanying notes form an integral part of the financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

These financial statements are prepared for Menlo Investments Limited (the 'Company'), the principal activity of which is to act as an investment company. The financial statements are separate financial statements prepared for the Company only, in line with the UK Companies Act 2006. The parent undertaking of the smallest group that presents consolidated financial statements is Barclays Bank PLC and the ultimate holding company and the parent undertaking of the largest group that presents group financial statements is Barclays PLC, both of which prepare consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee ('IFRS IC'), as published by the International Accounting Standards Board ('IASB'), and accordingly consolidated financial statements have not been prepared based on the exemption provided under paragraph 4(a) of IFRS 10.

The Company is a private limited company incorporated and domiciled in the United Kingdom. The Company's registered office is:

1 Churchill Place
London
E14 5HP

### 2. COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRS and IFRIC interpretations endorsed by the European Union. The principal accounting policies applied in the preparation of the financial statements are set out below, and in the relevant notes to the financial statements. These policies have been consistently applied.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

**Basis of preparation**

The financial statements have been prepared on a going concern basis under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required or permitted under IAS 39, 'Financial Instruments, recognition, and measurement' as set out in the relevant accounting policies. They are presented in pounds sterling, the currency of the country in which the Company is incorporated and the primary economic environment of the Company.

**Fair value gains and losses from assets and liabilities reported at fair value through profit and loss**

Fair value gains and losses represent changes in the fair value of financial instruments. The balance includes fair value movements on derivatives and hedge accounting adjustments on hedged items designated in a fair value hedge. Please see the hedge accounting policy for further information.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Interest**

Interest income or expense is recognised on all interest bearing financial assets classified as loans and receivables and on interest bearing financial liabilities using the effective interest method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

**Foreign currency translation**

Items included in the Company's financial statements are measured in pounds sterling, the functional currency and the currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement except for qualifying cash flow hedges or hedges of net investments. The policy on hedge accounting is shown later in this note.

Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equities classified as available-for-sale financial assets and non-monetary items are included directly in equity.

**Current and deferred income tax**

Income tax payable on taxable profits ('current tax'), is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current year or prior year taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the Company's financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantively enacted by the balance sheet date and that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised on deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is regarded as probable that sufficient taxable profits will be available against which the deductible temporary difference, unused tax losses and unused tax credits can be utilised.

Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously with the same tax authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments**

Investments in subsidiaries are stated at cost less impairment, if any.

**Financial assets and liabilities**

The Company recognises financial instruments from the trade date, and continues to recognise them until, in the case of assets, the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership, or in the case of liabilities, until the liability has been settled, extinguished or has expired.

Financial assets are initially recognised at fair value and then classified in the following categories and dealt with in the financial statements as follows:

*Financial instruments at fair value through profit or loss*

Assets (and liabilities in some cases) are so designated when they are held for trading, when they are financial derivative contracts, or at management's option (the fair value option) in certain circumstances.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are stated at amortised cost using the effective interest method (see above). They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

*Financial liabilities*

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, (see above) which are held at fair value through profit or loss. Financial liabilities are derecognised when extinguished. The Company's financial liabilities comprise borrowings in the balance sheet.

*Determining fair value*

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted market price in an active market wherever possible. Where no such active market exists for the particular asset, the Company uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Impairment of financial assets*

The Company assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. The factors that the Company uses include significant financial difficulty of the debtor or the issuer, a breach of contract or default in payments, the granting by the Company of a concession to the debtor because of a deterioration in its financial condition, the probability that the debtor will enter into bankruptcy or other financial reorganisation, or, in the disappearance of an active market for a security because of the issuer's financial difficulties.

The Company also considers observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, arising from adverse changes in the payment status of borrowers in the portfolio and national or local economic conditions that correlate with defaults on assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists individually for individually significant loans and receivables, and then collectively assesses remaining loans and receivables that are not individually significant. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

*Netting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, when there is a legally enforceable right to set off the recognised amounts in all circumstances and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

**Derivatives**

Derivatives are measured at fair value on initial recognition and subsequently the resulting gains and losses are recognised in the income statement, except for derivatives held for cash flow hedging purposes or for hedges of net investment in foreign operations, as described below. The fair value of derivatives is generally determined by reference to open market prices or by calculating the expected cash flows under the terms of each specific contract, discounted back to their present value using an appropriate market based pricing model.

**Hedge accounting**

The Company uses derivatives to reduce its exposure to movements in interest rates. Where the relationship between the hedge and the hedged item has been documented and is effective, hedge accounting is applied, depending on the risk being hedged, as follows. The Company only has fair value hedges, so only the policy for fair value hedges is disclosed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fair value hedges*

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For available for sale items this fair value hedging adjustment remains in equity until the hedged item affects profit or loss.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash comprises cash on hand, demand deposits, and cash equivalents. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. Trading balances are not considered to be part of cash equivalents.

**Share capital and dividends**

Equity instruments, including share capital, are initially recognised at net proceeds, after deducting transaction costs and any related income tax. Dividend and other payments to equity holders are deducted from equity, net of any related tax.

**Dividends on ordinary shares**

Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Company's shareholder(s).

**Critical accounting estimates and judgements**

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### New and Amended standards

The accounting policies adopted are consistent with those of the previous financial year, as there are no new standards or amendments to IFRS effective as of 1 January 2016 that have had a material impact on the Company's accounting policies.

### Future accounting developments

There are expected to be a number of significant changes to the Company's financial reporting after 2016 as a result of amended or new accounting standards that have been or will be issued by the IASB. The most significant of these are as follows:

IFRS 9 *Financial Instruments* ("IFRS 9") which will replace IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for periods beginning on or after 1 January 2018 and was endorsed by the EU in November 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments. The Company does not expect to restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7. The key changes relate to:

*Impairment:*

IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and would measure the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts (these were covered by IAS 37). In addition, the IAS 39 available for sale assets model is not fully aligned to the model for amortised cost assets. Intercompany exposures, including loan commitments and financial guarantee contracts, are also in scope in the stand alone reporting entity financial statements. The measurement of expected loss will involve increased complexity and judgment including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk. It is expected to have a material financial impact and impairment charges will tend to be more volatile. Impairment will also be recognised earlier and the amounts will be higher. Unsecured products with longer expected lives, such as revolving credit cards, are expected to be most impacted. It will not be practical to disclose reliable financial impact estimates until the implementation programme and validation and testing is further advanced, which will be no later than the Barclays PLC Annual Report 2017.

A joint accountable risk and finance implementation and governance programme was established by Barclays in 2014 to implement the requirements. During 2016, work continued on the design and builds of impairment models, systems, processes, governance, controls and data collection and continues to be refined during 2017. During 2017, there is a planned parallel run which includes continued model, process and output validation, testing, calibration and analysis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Classification and measurement:*

IFRS 9 will require financial assets to be classified on the basis of two criteria: i) the business model within which financial assets are managed, and ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'). Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest. Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election for non traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in the income statement.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at fair value through profit and loss. Gains and losses on such financial liabilities arising from changes in Barclays' own credit risk will be presented in other comprehensive income rather than in profit and loss. There is no subsequent reclassification of realised gains or losses on own credit to the income statement.

Barclays' Classification and Measurement implementation programme is in progress. The focus of the project during 2017 will be on finalising processes, governance and controls in preparation for initial application in 2018. IFRS 9 is applied retrospectively, although comparatives are not restated, with adjustments arising from classification and measurement changes recognised in opening retained earnings.

*Hedge accounting:*

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. The new rules would replace the current quantitative effectiveness test with a simpler version, and requires that an economic relationship exist between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations would not be allowed. Adoption of the IFRS 9 hedge accounting requirements is optional, and certain aspects of IAS 39, being the portfolio fair value hedge for interest rate risk, would continue to be available for entities (while applying IFRS 9 to the remainder of the entity's hedge accounting relationships) until the IASB completes its accounting for dynamic risk management project.

The Company expects to continue applying IAS 39 hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements .

NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Own Credit:*

The Company has applied the option in IFRS 9 to recognise changes in own credit in other comprehensive income from 1 January 2017. This will have no effect on net assets, and any changes due to own credit in prior periods have not been restated. Any realised and unrealised amounts recognised in other comprehensive income will not be reclassified to the income statement in future periods

The Company is in the process of considering the financial impact of the new standards..

## 4. DIRECTORS' EMOLUMENTS

The directors did not receive any emoluments in respect of their services to the Company during 2016 or 2015. During the year, no directors (2015: One director) exercised options under the Barclays PLC Sharesave Scheme and Long Term Incentive schemes.

## 5. INTEREST INCOME

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Interest income from other group undertakings | 30,167,739 | 913,122 |
| Interest income from parent undertakings | 3,221,435 | 41,787,120 |
| | 33,389,174 | 42,700,242 |

## 6. INTEREST EXPENSE

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Interest payable to other group undertakings | (18,028,187) | (18,782,714) |
| Interest payable to parent undertakings | (210,587) | (1,080,275) |
| | (18,238,774) | (19,862,989) |

## 7. FAIR VALUE GAINS ON SETTLEMENT OF LOANS

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Fair gains on settlement of loans | 313,275 | 55,127,513 |

On 4 March 2016 the Company received £313,275 for settlement of loans with Barclays Bank plc. On 3 August 2015, the Company received the settlement of two fixed rate loans from a group undertaking with notional of £800,000,000 and £1,739,686,208. These loans were settled at fair value plus accrued interest for £841,874,057 and £1,768,891,748 giving rise to a gain of £55,127,513.

NOTES TO THE FINANCIAL STATEMENTS (continued)

## 8. FAIR VALUE GAINS AND LOSSES

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Fair value (losses)/gains on fair value instruments | (26,066,283) | 26,809,148 |
| Hedge accounting adjustments on hedged items designated in fair value hedges | 77,146,405 | - |
| | 51,080,122 | 26,809,148 |

On 2 March 2016, the Company acquired two loans from its parent, Barclays Bank plc, which it designated as hedged items under a fair value hedge. As part of the hedge effectiveness retrospective testing for 31 October 2016, it was noted that the hedging relationships had failed. In line with the accounting policies, the hedge accounting adjustments processed to 30 September 2016, the last time the hedge was effective, are now being amortised over the remaining life of the instruments. As at 30 December 2016, one of the loans was re-designated as the hedged item in a new fair value hedge.

## 9. PROFIT BEFORE TAX

There were no employees employed by the Company during 2016 or 2015.

The audit fee is borne by another group entity. The fee that would otherwise have been charged to the Company amounts to £9,550 (2015: £9,250) for the year. This fee is not recognised as an expense in the financial statements.

Auditors' remuneration for the supply of other services is not disclosed because the financial statements of the Company's parent Barclays Bank PLC are required to disclose such fees in the consolidated financial statements.

## 10. TAX

The analysis of the charge for the year is as follows:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| **Current tax charge:** | | |
| Current year | (15,453,455) | (21,213,129) |
| Overall tax charge in the income statement | (15,453,455) | (21,213,129) |

The UK corporation tax charge is based on a UK tax rate of 20% (2015: blended rate of 20.25%). From 1 April 2015 the main rate of UK corporation tax is and has continued to be 20%. Legislation has been introduced to reduce the main rate of UK corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020.

## 10. TAX (continued)

A numerical reconciliation of tax expense and product of accounting profit multiplied by the applicable tax rate is as follows:

| | 2016 £ | 2015 £ |
|---|---|---|
| Profit before tax | 66,543,797 | 104,773,914 |
| Profit on ordinary activities multiplied by the corporation tax rate 20% (2015: 20.25%) | (13,308,759) | (21,216,718) |
| Effects of: | | |
| Transfer pricing adjustment | 298,855 | |
| Amortisation of foreign exchange differences and deferred tax income arising on novation of derivative positions and loans | (16,846,968) | (17,336,408) |
| Revaluation of deferred tax for changes in tax rates | (4,001,155) | |
| Adjustments in respect of prior year deferred tax in relation to transitional adjustments | (2,330,819) | |
| Adjustments in respect of prior year current tax in relation to transitional adjustments | (281,738) | |
| Reduction in Tax Adjustment Payment due to adjustments in respect of prior years | 2,612,557 | |
| Effective yield on notional arising from premium on acquisition | (2,443,551) | |
| Reduction in Tax Adjustment Payment | 20,848,123 | 17,336,408 |
| Overall tax charge | (15,453,455) | (21,216,718) |
| Effective tax rate % | 23.22% | 20.25% |

The Company was transferred a number of swap positions in 2014 and agreed to pay any benefit of tax losses realised in respect of those positions to BBPLC (Tax Adjustment Payments). On transition from Old UK GAAP to IFRS, the Company recognised debits in an amount equal to the difference in the notional tax carrying value of the swap positions before and after transition. These debits were spread over 10 years for tax purposes and accordingly a Deferred Tax Asset(DTA) was booked in respect of them and a liability was booked in respect of the corresponding Tax Adjustment Payments. The DTA and the liability in respect of the Tax Adjustment Payments are offset in the financial statements.

Legislation has been introduced to reduce the main rate of UK corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. As a result relevant deferred tax balances have been re-measured. The closing DTA have been measured at blended rates based on the rate when the deferred tax balances are expected to unwind.

NOTES TO THE FINANCIAL STATEMENTS (continued)

## 11. INVESTMENTS IN SUBSIDIARIES

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Cost and net book value | | |
| As at 1 January and 31 December | 250,000 | 250,000 |

The directors believe that the carrying value of the investments is supported by their underlying net assets. Investments in subsidiaries represents the ordinary shares of the Company's subsidiary, Pippin Island Investments Limited. The share holding of this entity is detailed below, as well as the details of its subsidiaries.

| Name of Subsidiary | Registered Office Address | Class of Shares | Name of immediate parent | Total proportion of nominal value held by immediate parent | Financial year-end |
|---|---|---|---|---|---|
| Pippin Island Investments Limited | Ugland House, Grand Cayman, KY1-1104 Cayman Islands | Ordinary | Menlo Investments Limited | 100% | 31 December |
| Fitzroy Finance Limited | 1 Churchill Place, London E14 5HP | Ordinary | Pippin Island Investments Limited | 100% | 31 March |

The trading address for Pippin Island Investments Limited is 1 Churchill Place, London, E14 5HP.

## 12. LOANS AND OTHER RECEIVABLES

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Loans and advances to group undertakings | 2,778,739,142 | - |
| Loans and advances to parent undertakings | 653,848,680 | 3,178,801,277 |
| | **3,432,587,822** | **3,178,801,277** |

On 2 March 2016, the Company acquired loans and interest rate swaps with Westferry Investments Limited from Barclays Bank PLC (BBPLC). The loans are fixed rate loans with notional of £1,767,046,385 and £840,084,336 and interest rates of 1.69617% and 2.03777% respectively.

The fair values of loans to group undertakings was £2,751,902,616 at 31 December 2016 and the fair value of loans to parent undertakings approximate their book value. The directors reviewed the carrying value of loans to group undertakings and consider that there is no evidence of impairment, in spite of the carrying value being higher than the fair value, owing to prior hedge accounting adjustments being amortised over the remaining life of the positions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. AMOUNTS OWED TO GROUP UNDERTAKINGS

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Amounts owing to group undertakings | 2,943,069,191 | 2,944,384,175 |
| Amounts owing to parent undertakings | 44,814,166 | 36,501,718 |
| As at 31 December | **2,987,883,357** | **2,980,885,893** |

The Directors consider that the carrying value of the Company's borrowings approximates their fair value.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

Net fair value of derivative financial instruments held by the company are as follows.

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Interest rate swaps with a group undertaking | 186,931,827 | - |

The Company is party to two interest rate swaps, which it holds for risk management and were designated as the hedging instruments in two fair value hedges of fixed rate loans with Westferry Investments Limited as disclosed in note 12. The hedge ceased to be effective after 30 September 2016. Fair value gains on the hedged item to 30 September were £68,239,944 and fair value losses on the interest rate swaps to 30 September were £63,225,820.

## 15. CALLED UP SHARE CAPITAL

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Authorised | | |
| 28,000,000, ordinary shares of £1 each (2015: 28,000,000) | 28,000,000 | 28,000,000 |
| 400,100,10, redeemable preference shares of £1 each (2015: 400,100,000) | 400,100,000 | 400,100,000 |

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Allotted and fully paid | | |
| 100,000 ordinary shares of £1 each (2015: 100,000) | 100,000 | 100,000 |

Dividends on ordinary shares are payable at the discretion of the Company's directors. Ordinary shares are entitled to a share of residual assets of the Company on liquidation.

## 16. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH USED IN OPERATING ACTIVITIES

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Profit before taxation | 66,543,797 | 104,773,914 |
| Interest receivable | (33,389,174) | (97,827,755) |
| Interest payable | 18,238,774 | 19,862,989 |
| Breakage gains | (313,275) | - |
| Hedge accounting adjustments on loans | (77,146,405) | - |
| Fair value change in derivative financial liabilities movement | (9,519,226) | (727,742,473) |
| NET CASH USED IN OPERATING ACTIVITIES | (35,585,509) | (700,933,325) |

## 17. FINANCIAL RISKS

The Company's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and market risk, (which includes foreign currency risk, interest rate risk and price risk). Consequently, the Company devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks, and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business. The Company uses derivative financial instruments to hedge certain risk exposures. The Board of Directors monitors the Company's financial risks and has responsibility for ensuring effective risk management and control.

### Liquidity risk

This is the risk that the Company's cash and committed facilities may be insufficient to meet its debts as they fall due. The Company has the financial support of its parent undertaking, Barclays Bank PLC, with whom it also maintains banking facilities. These facilities are designed to ensure the Company has sufficient available funds for operations.

The table below shows the cash flows payable by the Company under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Company manages the inherent liquidity risk based on discounted expected cash flow.

| | 2016 Total |
|---|---|
| | £ |
| **Financial liabilities repayable:** | |
| - Not more than one year – Derivative financial instruments | (186,931,827) |
| - Not more than one year – Borrowings | (2,987,883,357) |
| | (3,174,815,184) |

| | 2015 Total |
|---|---|
| | £ |
| **Financial liabilities repayable:** | |
| - Not more than one year | (2,980,885,893) |

## 17. FINANCIAL RISKS (continued)

### Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Company's counterparties fail to fulfill their contractual obligations to the Company. The Company assesses all counterparties for credit risk before contracting with them. The Company has only contracted with other group companies and has no third party credit exposure.

There were no significant concentration of credit risk.

The Company's maximum exposure to credit risk is detailed in the table below. All amounts are neither past due nor impaired. The credit quality of financial assets subject to credit risk was assessed as strong as at 31 December 2016 and 31 December 2015. A Strong rating indicates that these is a very high likelihood of the asset being recovered in full. The Company does not hold any collateral as security.

| 31 December 2016 | Loans and receivables | Cash and cash equivalents | Total |
|---|---|---|---|
| | £ | £ | £ |
| Carrying value | 3,432,587,822 | 1,506,669 | 3,434,094,491 |

| 31 December 2015 | Loans and advances | Cash and cash equivalents | Total |
|---|---|---|---|
| | £ | £ | £ |
| Carrying value | 3,178,801,277 | 676,377 | 3,179,477,654 |

### Market Risk

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices and foreign exchange rates. Of these, only interest rates are applicable to the Company.

### Interest rate risk

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/or reduced net interest income from the Company's interest bearing financial assets and liabilities. The Company's interest rate risk arises from fair value changes on its fixed rate loans and derivative positions, and from changes to net interest income on its interest bearing loans and borrowings.

## 17. FINANCIAL RISKS (continued)

**Interest rate sensitivity analysis**

The sensitivity of the income statement is the effect of assumed changes in interest rates on net interest income for the next year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2016, including the effect of hedging instruments.

*Impact on net interest income*

The Company has considered the effect on interest of a 10 basis points change. This analysis has been performed by applying a 10 basis point change to the outstanding principal of the interest bearing positions following their next reset date.

| | +10 basis points 2016 | -10 basis points 2016 | +10 basis points 2015 | -10 basis points 2015 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Total** | (1,814,703) | 1,814,703 | 197,847 | (197,847) |
| **As a percentage of net interest income** | (11.98)% | 11.98% | 0.9% | (0.9)% |

*Impact on equity*

Interest rates affect equity for the Company through higher or lower profit after tax resulting from lower net interest income and from fair value gains and losses. The sensitivities of equity shown below are illustrative and based on simplified scenarios. They are calculated by revaluing the hedging impact of fixed rate assets, including the effect of any associated hedges, and derivatives for the effect of the assumed changes in interest rates. They are based on the assumption that there are parallel shifts in the yield curve. The effects of taxation have been estimated using the Company's effective tax rate for the coming year of 19.25% (2015: 20%).

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Year ended 31 December | Maximum impact | Minimum impact | Year ended 31 December | Maximum impact | Minimum impact |
| | £ | £ | £ | £ | £ | £ |
| +10 basis point parallel move in all yield curves | | | | | | |
| Net interest income | (1,814,703) | (1,814,703) | (1,814,703) | 197,847 | 197,847 | 197,847 |
| Fair value gains and losses | 9,893,504 | 9,893,504 | 9,893,504 | - | - | - |
| Taxation | (1,555,169) | (1,555,169) | (1,555,169) | (39,569) | (39,569) | (39,569) |
| Total | 6,523,632 | 6,523,632 | 6,523,632 | 158,278 | 158,278 | 158,278 |
| As a percentage of equity at 31 December | 2.8% | 2.8% | 2.8% | 0.1% | 0.1% | 0.1% |
| - 10 basis point parallel move in all yield curves | | | | | | |
| Net interest income | 1,814,703 | 1,814,703 | 1,814,703 | (197,847) | (197,847) | (197,847) |
| Fair value gains and losses | (9,343,934) | (9,343,934) | (9,343,934) | - | - | - |
| Taxation | 1,449,377 | 1,449,377 | 1,449,377 | 39,569 | 39,569 | 39,569 |
| Total | (6,079,854) | (6,079,854) | (6,079,854) | (158,278) | (158,278) | (158,278) |
| As a percentage of equity at 31 December | (2.6)% | (2.6)% | (2.6)% | (0.1)% | (0.1)% | (0.1)% |

## 18. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following tables summarise the fair value of financial assets and liabilities measured at amortised cost on the Company's balance sheet where the carrying amount is not a reasonable approximation of fair value:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Carrying amount | Fair Value | Carrying amount | Fair Value |
| | £ | £ | £ | £ |
| **Financial assets** | | | | |
| Loans and other receivables | 3,432,587,822 | 3,405,493,260 | 3,178,801,277 | 3,178,801,277 |

The following tables show the fair value of financial assets and liabilities measured at amortised cost analysed by fair value hierarchy and balance sheet classification:

| | Fair Value | Observable inputs (Level 2) |
|---|---|---|
| **As at 31 December 2016** | £ | £ |
| **Financial assets** | | |
| Loans and other receivables | 3,405,493,260 | 3,405,493,260 |
| **Financial liabilities** | | |
| Amounts owed to group undertakings | 2,987,883,357 | 2,987,883,357 |

The following table shows the Company's assets and liabilities that are held at fair value analysed by fair value hierarchy and balance sheet classification:

| | Observable inputs (Level 2) | Total |
|---|---|---|
| | £ | £ |
| **As at 31 December 2016** | | |
| Derivative financial instruments | - | - |
| **Total assets** | - | - |
| Derivative financial instruments | (186,931,827) | (186,931,827) |
| **Total Liabilities** | **(186,931,827)** | **(186,931,827)** |
| **As at 31 December 2015** | | |
| Derivative financial instruments | - | - |
| **Total assets** | - | - |
| Derivative financial instruments | - | - |
| **Total Liabilities** | - | - |

## 18. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

### Valuation methodology

A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is described below.

*Quoted market prices - Level 1*

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

*Valuation technique using observable inputs - Level 2*

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

*Valuation technique using significant unobservable inputs - Level 3*

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

## 19. EVENTS AFTER THE BALANCE SHEET DATE

On 21 April 2017:

- the Company's derivative positions were terminated at their fair value by agreement with Westferry Investments Limited, giving rise to no gain or loss;
- the Company requested early repayment of its loans to Barclays Bank PLC and to Westferry Investments Limited;
- Westferry Investments Limited repaid its loans to the Company; and
- the Company put the resulting cash on interest bearing deposit with its parent.

## 20. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions, or one other party controls both.

The definition of related parties includes parent company, ultimate parent company, subsidiary, associated and joint venture companies, as well as the Company's key management which includes its directors. During the year there have been no other transactions with related parties other than transactions disclosed elsewhere in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

## 21. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to generate sufficient capital to support asset growth.

The board of directors is responsible for capital management and has approved minimum control requirements for capital and liquidity risk management.

The Company regards as capital its equity, as shown in the balance sheet, which is as follows:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Total capital is as follows: | | |
| Called up Share capital | 100,000 | 100,000 |
| Retained earnings | 225,222,874 | 174,132,532 |
| Total | 225,322,874 | 174,232,532 |

## 22. PARENT UNDERTAKING AND ULTIMATE HOLDING COMPANY

The parent of the Company is Barclays Bank PLC, which is also the parent undertaking of the smallest group that presents consolidated financial statements. The ultimate holding company and the parent company of the largest group that presents group financial statements is Barclays PLC. Both companies are incorporated in the United Kingdom and registered in England. Barclays Bank PLC's and Barclays PLC's statutory financial statements are available from Barclays Corporate Secretariat, 1 Churchill Place London E14 5HP.