

UK Financial Investments Ltd

UK FINANCIAL INVESTMENTS LIMITED (UKFI)
ANNUAL REPORT AND ACCOUNTS 2015/16





UK Financial Investments Limited (UKFI) Annual Report and Accounts 2015/16

Presented to Parliament
by the Economic Secretary to the Treasury
by Command of Her Majesty

July 2016

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UKFI'S REMIT

UK Financial Investments Ltd (UKFI) was created in November 2008 as part of the UK's response to the financial crisis.

UKFI is responsible for managing the Government's shareholdings in The Royal Bank of Scotland Group plc (RBS) and Lloyds Banking Group plc (Lloyds). UKFI is also responsible for managing the Government's 100 per cent shareholding in and loans to UK Asset Resolution Ltd (UKAR). UKAR was formed in October 2010 to integrate the activities of NRAM (previously known as Northern Rock (Asset Management) plc) and Bradford & Bingley plc.

UKFI's overarching objective is to manage these shareholdings commercially to create and protect

value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government's ownership stakes in an orderly and active way over time within the context of protecting and creating value for the taxpayer as shareholder; paying due regard to the maintenance of financial stability and acting in a way that promotes competition.

UKFI is a Companies Act company and operates at arm's-length from Government. Since 1 April 2016 UK Government Investments Ltd has been its sole shareholder: UKFI's ultimate beneficial owner is HM Treasury. More detail on UKFI's role, remit and ownership approach is set out in our Framework Document and Investment Mandate with HM Treasury, which can be found at www.ukfi.co.uk.

CHAIRMAN'S FOREWORD

UKFI has made considerable progress with the execution of its mandate this financial year, which has been one of the most active in its history. Across all of our assets, the total proceeds realised from sales were £22.5bn, which is by a considerable margin the largest annual reduction in the taxpayer's exposure since UKFI was founded. We executed a first sale of shares in RBS and sold a further £7.4bn of Lloyds shares through a trading plan. UK Asset Resolution Ltd (UKAR) continued the orderly run-down of Northern Rock (Asset Management) plc with a significant £13bn sale of mortgages agreed in November 2015.

In 2015 the UK economy performed well growing by more than 2 per cent. Volatility in financial markets increased towards the end of the calendar year and rose again in 2016 due to concerns over global growth, deflation, and commodity prices. As a result, global stock markets fell by 12 per cent in the first six weeks of 2016. Over the 2015/16 financial year UK equities outperformed European equities but fell by around 20% from their highs in early April before recovering around half these losses.

Early in the financial year UKFI advised the Chancellor that it was appropriate to start considering a first sale of RBS shares. This view was supported by an independent review of the Government's Shareholding in RBS and the Governor of the Bank of England. UKFI executed the first share sale in RBS in August, raising £2.1bn of proceeds with 630m shares sold at a price of 330p. This reduced the Government's shareholding to 73 per cent.

In October the Government converted its holding of B shares into ordinary shares in RBS and in March 2016, RBS paid the Government the final Dividend Access Share (DAS) retirement amount, a total of £1.2bn. The share conversion and the DAS payment mark the final stage in the normalisation of RBS's capital structure, and represent a further step towards the recommencement of ordinary dividends and the potential return of excess capital, which should help facilitate further Government share sales in the future.

During the year UKFI extended the trading plan to dispose of more shares in Lloyds. The trading plan is designed to sell shares in the market over time, in an orderly and measured way. Between December 2014 (when the plan was announced) and 31 March 2016, 11.3bn shares were sold at an average price of 81.4p for total proceeds of £9.2bn. This has reduced the Government's shareholding in Lloyds to 9.1 per cent. Following positive end of year results for Lloyds the Chancellor reaffirmed his commitment to a sale of Lloyds' shares to retail investors in financial year 2016/17. UKFI has focused on preparations for a sale and developing the necessary infrastructure.

This year has been a period of significant activity at UKAR, which has made further progress in winding down the mortgage books of both NRAM and Bradford & Bingley. In the year ended 31 March 2016, UKAR reported an underlying profit of over £1bn, total customer balances were reduced from £52.7bn to £35.5bn and £6.3bn of Government debt was repaid and arrears continued to fall. Since UKAR's formation in 2010, its balance sheet has reduced from £115.8bn to £43.2bn, and two important transactions were announced during the year:

The first is the £13bn sale of NRAM assets to Cerberus Capital Management LP announced in November which helped facilitate the large balance sheet reduction in 2015. The cash proceeds from the sale were used to repay the outstanding Granite liabilities and the NRAM government loan. The second transaction is the divestment of UKAR's mortgage servicing operations; in February 2016 UKAR selected Computershare Limited as the preferred bidder in respect of this divestment. The disposal will ensure the stability and continuity of service to UKAR's customers, while enabling the company to continue to maximise taxpayer value through the controlled wind down of its balance sheet, and to reduce Government debt.

In addition, in the 2016 Budget, following UKFI advice, the Government announced that sale options were being explored to raise sufficient proceeds for Bradford & Bingley to repay its £15.7bn loan from the Financial Services Compensation Scheme, and in turn, the corresponding loan from HM Treasury.

In May 2015 the Chancellor announced the creation of UK Government Investments (UKGI). Over the last year we have worked with our colleagues from the Shareholder Executive (ShEx) to support its establishment. UKGI began operating on 1 April 2016, and UKFI is now a wholly owned subsidiary of UKGI. UKFI will continue to work as a separate company with its current Board, under its own Framework Document and Investment Mandate. The Framework Document has been updated to reflect the new structure and arrangements and the Investment Mandate remains unchanged. In the longer term, UKFI and UKGI will become one company. UKGI has a bright future as the Government's centre of excellence in corporate finance and corporate governance, bringing together a unique blend of high-calibre people drawn from the private and public sectors, and we look forward to working increasingly closely with UKGI in the coming months and years.

In March 2016 we announced a change to our own structure, with the Chancellor appointing Oliver Holbourn as Chief Executive of UKFI and a member of the Board. Oliver will be an exceptional leader of UKFI and I am delighted that we will continue to work together.

In June 2016 the UK voted to leave the European Union. We will keep the risks and opportunities arising from this development under continuous review, in accordance with our mandate set out in our Framework Document.

I would like to take this opportunity to thank all my Board colleagues for their hard work over the year. This year UKFI has once more benefited significantly from their experience and insightful advice as we continue to carry out the mandate set by HM Treasury.



James Leigh-Pemberton
Chairman and Accounting Officer

4 July 2016

ANNUAL REPORT AND ACCOUNTS
2015/16

01

Strategic Report

Introduction

This Chapter provides an overview of UKFI's activities, with reference to UKFI's objectives for 2015/16 including:

- a summary of how we have approached our role as an active and engaged shareholder over the past year, with the objective of building sustainable shareholder value;
- an update on our strategy for disposing of the shareholdings;
- a review of the principal risks and uncertainties facing UKFI; and
- a description of UKFI's objectives for 2016/17.

More detailed information on the financial performance of each of the investee companies over the past year is provided in Chapters 2 to 4. Chapters 5 and 6 provide further information on UKFI's internal governance and remuneration policies. The UKFI Board, supported by its two sub-committees, takes all major strategic decisions for the Company. The directors provide the Company with the appropriate experience, expertise and independence to manage the Government's investments on a commercial basis.

Chapters 7 and 8 provide the independent auditor's report and UKFI's Financial Statements for 2015/16. UKFI has produced an unqualified set of accounts for the seven years of its operation. Our direct administration expenditure for the year under review was £2.4m, of which staff costs were £1.8m.

UKFI's role as an active and engaged shareholder

Under the framework set by the Government, UKFI is required to manage the shareholdings on a commercial basis, actively engaging at a strategic level rather than intervening in day-to-day management decisions. This approach aims to ensure that value is re-established in the banks under the leadership of their own boards and management teams, to the benefit of taxpayers. Our level of involvement varies between the partly and wholly-owned institutions:

- in the case of UKAR, in which the Government is a 100 per cent shareholder, UKFI works with the Board and management team in a manner similar to that in which a financial sponsor would engage with a wholly-owned portfolio company. For example, UKFI appoints the Chairman of the Board, is required to approve board nominations, is represented by two UKFI nominated non-executive directors on the Board and has approval rights over UKAR's business plans;
- in contrast, the nature of UKFI's interaction with Lloyds and RBS reflects the fact that both institutions are listed companies and that their directors have fiduciary duties under the Companies Act 2006 to act in the commercial interests of all shareholders, not just the largest one. UKFI therefore operates in line with best practice for institutional shareholders, exercising its voting rights and engaging actively with the Boards and senior management on key strategic issues, while preserving their independence and freedom to determine their own commercial policies and business plans. The frequency and intensity of our interaction with each bank reflects the level of Government ownership.

For all the investee companies, our engagement is focused on ensuring that their business strategies, performance, governance and risk management processes are aligned to deliver sustainable value for the

taxpayer. This approach is consistent with the best practice set out in the Financial Reporting Council's Stewardship Code for Institutional Investors, which aims to enhance the quality of engagement between shareholders and companies. Further details of how we act in accordance with this Code are available on our website.

Our approach to the stewardship of the investments is also informed by active dialogue with a wide range of institutional investors and analysts, with whom UKFI holds regular meetings.

Engagement with UKAR

David Lunn (Head of Wholly Owned) and Keith Morgan have remained the two UKFI nominated non-executive directors on the UKAR Board.

During the year, UKFI engaged closely with UKAR on executing a number of key projects to progress its objectives of winding down its balance sheet. These projects include two key transactions, namely the £1.3bn sale of NRAM (Northern Rock's legacy mortgage book managed by UKAR) assets and the divestment of UKAR's servicing operations. Our engagement has focused on the delivery of good value to the taxpayer, and the management of the significant organisational change which these two transactions entail.

We have continued to engage with UKAR on regulatory and legal developments during the year, in order to assess their impact on UKAR's operating procedures, approach to treating customers fairly and financial performance.

Engagement with RBS and Lloyds

Over the last year, UKFI has continued to engage with RBS on the implementation of the bank's strategy to restructure and simplify its business and increase its focus on operations in the UK. The emphasis of UKFI's engagement has been on the consequences for shareholder value of a number of aspects of the strategy.

As the Government's shareholding in Lloyds has decreased, our level of interaction has been adjusted appropriately, and a significant portion of our engagement during 2015/16 has been in relation to preparations for the sale of shares to retail investors in 2016/17.

We have continued to engage with both banks to ensure that they remain focused on improving the risk management process used to underpin business decisions. This relates not only to the prudential management of each firm, but also to risk management processes in respect of conduct issues, where both banks continue to deal with legacy shortcomings and must continue to develop appropriate systems, processes and cultures to meet higher regulatory standards.

Over this financial year UKFI has voted on behalf of the Government on all resolutions put to shareholders in both Lloyds and RBS where it was permitted to do so under the listing rules. We inform the relevant bank in advance of our voting intentions and rationale, and we disclose on our website how we have voted. Many of these votes follow consultations by the Boards with us and other shareholders in relation to individual resolutions.

While it is for the Boards of Lloyds and RBS to make decisions on directors and senior appointments, as a large shareholder we are regularly consulted, and always seek to ensure that suitably qualified individuals are appointed. This year, UKFI has monitored the performance and effectiveness of the RBS Board. UKFI voted in favour of the resolutions proposing the re-election of the RBS Board of Directors, in line with UKFI's remit to protect and create value in the taxpayers' investment in RBS. At RBS, Sir Howard Davies joined the Board in June 2015 and assumed the role of Chairman on 1 September 2015 coinciding with Sir Philip Hampton's departure. Mike Rogers joined the Board in January 2016. At Lloyds, both Deborah McWhinney and Stuart Sinclair joined the Board last year. Ms McWhinney serves as a member of the Group's Audit and Risk Committee; and Mr Sinclair serves as a member of the Group's Remuneration and Risk Committee.

Remuneration

Remuneration in the banking sector remains a high-profile issue. UKFI has continued to work closely with the Boards to ensure they exercised appropriate judgement in relation to their approach to directors' remuneration. While both banks need to be sensitive to the wider economic and political environment in which they operate, it is also essential that they are able to offer remuneration packages that are adequate to attract and retain staff with the talent and experience needed to run their businesses effectively and create and sustain value for the taxpayer.

UKFI has continued to be closely engaged with Lloyds' and RBS's remuneration committees and, as was the case in the prior year, we have concluded that both committees exercised appropriate judgement in relation to their approach to total variable remuneration in the year to 31 December 2015, both in relation to financial performance and the retention of key employees.

At RBS, both the group and the investment bank bonus pools decreased compared to last year, and no bonuses were paid to executive board members or the eight highest paid senior executives below board level.

At Lloyds, the group bonus pool also decreased. The Board awarded the Chief Executive, António Horta-Osório a salary increase the full payment of which is subject to the complete disposal of the Government's shares in Lloyds.

Disposals strategy

UKFI is responsible for devising and recommending to HM Treasury strategies for returning the banks to private ownership, realising value for the taxpayer and executing the chosen strategy. Further details of how we are approaching this task for each of the investee institutions are set out below.

UKAR

In 2015/16, UKAR reduced its balance sheet by £22.9bn compared with £8.8bn the previous year. This included a £6.3bn repayment of the outstanding Government loans. UKAR also made a successful repurchase of all the remaining NRAM covered bonds and two Bradford and Bingley covered bonds.

The sizeable reduction in UKAR's balance sheet compared to last year was primarily the result of its £1.3bn sale of NRAM assets to affiliates of Cerberus Capital Management LP in November 2015. Since its formation in 2010, UKAR has reduced the size of its balance sheet from £115.8bn to £43.2bn as at 31 March 2016. When Northern Rock was nationalised in 2008 its balance sheet totalled £104.4bn; NRAM's balance sheet totalled £12.6bn on completion on the sale to Cerberus.

Subsequent to the year end, in May 2016, UKAR announced it had signed contracts with Computershare Limited for the outsourcing of UKAR's mortgage servicing operations. The divestment will enable UKAR to continue to maximise taxpayer value through the controlled wind down of its balance sheet, and reduce Government debt whilst ensuring stability and continuity of service to customers as it does so.

In March 2016, following advice from UKFI, it was announced in the Budget that a programme of sales was being explored with a view to enabling Bradford & Bingley to repay its £15.7bn debt to the Financial Services Compensation Scheme, which would in turn allow it to repay its corresponding loan from HM Treasury.

Lloyds

In December 2014, UKFI announced a six month trading plan to dispose of shares in Lloyds, taking advantage of supportive market conditions and the increased free float of Lloyds shares that the Government's previous share sales had generated. The trading plan is designed to sell shares in the market over time, in an orderly and measured way. The decision to implement this plan was made following detailed analysis by UKFI and its advisors of a range of matters including the structure of the plan, Lloyds' share price performance, a detailed assessment of fair value and wider market conditions.

During 2015/16, UKFI extended the trading plan on two occasions: on 1 June 2015 and 4 December 2015. It is due to expire on 30 June 2016. From 17 December 2014 to 31 March 2016, a total of 11.3bn shares had been sold through the plan at an average price of 81.4p for total proceeds of £9.2bn. This reduced the Government's shareholding to 9.1 per cent.

The Government originally planned to launch a retail share offer in 2015/16. However, due to difficult market conditions, the Chancellor announced in January 2016 that this sale would be postponed. Following positive end of year results for Lloyds, the Chancellor reaffirmed his commitment to a retail

offer in financial year 2016/17, but kept the timing under review in light of market conditions. UKFI has focused on preparations for a sale and developing the necessary infrastructure.

RBS

In the Chancellor's Mansion House speech in June 2015, he signalled that the time was right to start selling the Government's stake in RBS. This followed detailed advice from UKFI, and others. The first RBS share sale since the financial crisis was completed in August 2015. This sale disposed of a 5.4 per cent stake at 330p a share, raising £2.1bn of proceeds.

In October 2015 following UKFI's recommendation, the Government converted 51bn non-voting B shares of 1p each into 5.1bn ordinary shares of £1 each. This was an important milestone in the normalisation of RBS's capital structure, which will facilitate further shares sales in the future.

Additionally, in March 2016, after receiving approval from the PRA, RBS paid the Government the final Dividend Access Share (DAS) retirement amount of £1.2bn (including interest accrued since the start of 2016). The total amount paid by RBS to retire the DAS was £1.5bn.

Principal risks and uncertainties

UKFI actively manages the risks it faces as an organisation and has therefore put in place business and operational risk management arrangements so that the Board and, through it, UKFI's stakeholders can be reassured that UKFI is operating within the risk parameters set by the Framework Document and the Investment Mandate in place between UKFI and HM Treasury.

UKFI maintains a risk register to record and facilitate the management of the risks faced by UKFI as an organisation and the risks which arise from shareholdings in the banking sector. The risk register assigns risks to the following categories: operational, strategic and project. This document has been maintained by the Executive Chairman, and will be maintained by the Chief Executive Officer going forward. It is reviewed and discussed by the UKFI Board on a regular basis.

The system of governance and internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The following sets out the key risks to UKFI identified during the year and the actions taken to mitigate them.

Operational risks

UKFI regularly reviews its operational capabilities in order to ensure that it has the operating infrastructure, human resources and other capabilities necessary to carry out its mandate. The risk of interruption to UKFI's business by an external event is mitigated by a business continuity plan which is reviewed annually.

Risks to data and information held by UKFI are owned and managed by individuals and collectively by the Company as a whole. There were no personal data related incidents during the year.

UKFI has policies and procedures which set out how staff are required to operate to discharge their duties. These cover the operation of the UKFI Board, compliance, risk management, procurement, finance and human resources. In addition, all UKFI staff are required to undertake mandatory training which ensures awareness of the major risks associated with UKFI's day-to-day operating environment. There were six security incidents during the year, none of which resulted in the leak of any information.

Strategic risks

The regulatory environment for banks continued to evolve over the year although the pace and quantum of change was arguably less than previous years. Importantly as part of the 2015 stress test results carried out by the Bank of England the Financial Policy Committee judged that the banking system is capitalised to support the real economy in a severe global stress scenario, which adversely affects the UK. Both Lloyds and RBS passed the stress tests, though RBS recognised they need to do more to restore the organisation to a strong and resilient bank for customers. UKFI continues to work with both banks to monitor changes in regulation and to ensure plans are in place to deal with them.

Though the UK economy continues to perform well on a relative basis, expectations for global growth have been falling and operating conditions for banks have become more difficult as a result of a flattening yield curve. This presents challenges to the investee banks and to the ability of UKFI to fulfil its mandate. UKFI engages with the banks' management regularly on plans to prepare for potential risks of this kind, and to assess how they are adapting business plans to respond to changes in economic conditions.

Market conditions were benign for a reasonable portion of calendar year 2015 and this enabled us to make progress in reducing the assets under our stewardship at prices that represented value for money for the taxpayer. However, because of falling commodity prices and growth concerns financial markets have experienced increased volatility in the first quarter of 2016. Such conditions present challenges to selling assets at good prices. UKFI continues to manage and mitigate market risks by carrying out rigorous analysis, supported by its advisors, to assess the implications of market conditions for disposal opportunities.

Remuneration in the banking sector remains a high profile issue, particularly in light of the continued cost of legacy issues. UKFI worked with the banks' remuneration committees to ensure that they pursued policies that promote long-term sustainable performance.

Banks in the UK and elsewhere continue to face substantial costs from legacy regulatory and conduct issues. These include costs of payment protection insurance redress, packaged account redress, interest rate hedging products misselling as well as LIBOR and US mortgage-backed securities related litigation. UKFI is engaged closely with the management and Boards of Lloyds and RBS on the remediation of past conduct issues to ensure that robust risk management and control systems are developed and maintained to minimise the incidence of such failings in the future.

Project risks

In December 2014, UKFI announced that it would sell shares in Lloyds through a trading plan. Originally planned for a period of up to six months, this has since been extended to June 2016 reflecting the ongoing success of the project in realising value for taxpayers. UKFI continued to prepare for a sale of shares to retail investors in 2016/17 in order to help complete the return of Lloyds to full private ownership and to work with its advisors to ensure that any risks to the successful delivery of such a sale are identified and mitigated so far as possible.

In February 2016 UKFI wrote to the Chancellor regarding UKAR entering into exclusive negotiations with Computershare in respect of the divestment of UKAR's mortgage servicing operations. On completion this transaction will provide stability of service for Bradford & Bingley, Mortgage Express and NRAM customers and enable UKAR to focus on the continuing wind down of its mortgage book to maximise value for taxpayers by undertaking further asset sales and continuing to reduce the Government debt. UKFI is working closely with its financial advisor and with UKAR to identify the risks associated with this initiative and to develop strategies to mitigate them as far as possible.

UK Government Investments began operating on 1 April 2016 as a Government company wholly owned by HM Treasury, which brings together the functions of the Shareholder Executive and UKFI. UKGI's purpose is to be the Government's centre of excellence in corporate finance and corporate governance. UKFI has worked with HM Treasury and colleagues from the Shareholder Executive to facilitate this. UKFI will continue to act as an independent company for the foreseeable future with UKGI as its parent company. We will continue to work closely with UKGI and the intention is to co-locate both teams during the 2016/17 financial year and to share a single operational platform.

UKFI's 2016/17 objectives

The key objectives which UKFI has agreed with HM Treasury for the 2016/17 reporting year are set out below.

Lloyds and RBS

1. To engage with the Boards and management teams of both banks to ensure that their strategies, performance and leadership remain appropriate to build sustainable shareholder value in the context of the evolving operating and regulatory environment, underpinned by high standards of customer conduct, risk management and regulatory compliance.
2. To develop, maintain and where appropriate execute a strategy for the effective disposal of the shareholdings, taking into account relevant market developments, and to work with HM Treasury to ensure that the analytical frameworks used to assess the value for money and wider policy, operational and legal implications of individual transaction proposals remain robust.
3. To maintain an ongoing dialogue and communication with both existing and prospective investors in Lloyds and RBS to inform our approach to both the stewardship and disposal of the shareholdings.

UKAR

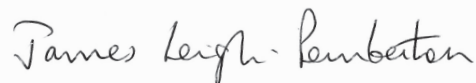
4. To actively engage with UKAR in the ongoing orderly run-down of its closed mortgage books with a focus on maximising value for the taxpayer. This includes:
 - ongoing review of its business plan and balance sheet optimisation strategy;
 - working with the company to execute balance sheet transactions as appropriate; and
 - monitoring its approach to arrears management, treating its customers fairly, impairments and cost efficiency.

All investee companies

5. To ensure that strong governance and leadership are maintained at these institutions to oversee the successful development and implementation of the agreed strategies.
6. To engage actively with the remuneration committees of these institutions in striking an appropriate balance between incentives and restraint.
7. To provide input and expertise where appropriate to support HM Treasury and UKGI's wider policy interests in relation to the banking sector; in particular in relation to financial stability and competition.

UKGI

8. To work effectively with our new parent company UKGI, including:
 - reporting appropriately on UKFI activities;
 - beginning to integrate the two companies' operating platforms;
 - providing input and expertise to support UKGI's wider objectives; and
 - supporting close working between the two organisations.



James Leigh-Pemberton
Chairman and Accounting Officer

4 July 2016

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The Royal Bank of Scotland Group plc

Summary of Government shareholding

As at the end of March 2016, the Government held a total of 8.4bn ordinary shares in RBS, equivalent to a 72.3 per cent voting share. During the course of 2015/16, the Government sold 630m shares to institutional investors, and converted its holding of RBS “B” shares into ordinary shares. This sale resulted in a reduction in the Government’s economic shareholding in RBS to 72.6 per cent and following the conversion of the B shares to ordinary shares the alignment of the Government’s voting and economic interest in RBS. The 31 March 2016 share price of 223p implied a current market value of the Government’s shareholding of £18.8bn.

Company overview

RBS is a large banking group providing services to personal, commercial and large corporate and institutional customers. Headquartered in Edinburgh, the Group operates in the UK, through its two principal subsidiaries, RBS and NatWest, and internationally.

Company performance

The table below provides an overview of the key financial results for RBS from 2013 to 2015. Full details of the results, including for the first quarter of 2016, can be found on the Company’s website: www.investors.rbs.com/results_centre.

Table 2.1: Key financial performance metrics

	2015	2014	2013
Risk measures (Group)			
Fully loaded Basel III common equity tier I ratio	15.5%	11.2%	8.6%
Loan to deposit ratio	89%	95%	94%
Short-term wholesale funding (<1 year)	£17bn	£28bn	£32bn
Liquidity portfolio ¹	£156bn	£151bn	£146bn
Leverage ratio ²	5.6%	4.2%	3.4%
Profitability Metrics (Core)			
Return on equity ³	11.2% ^{4,5}	13% ^{4,6}	4.6% ⁷
Cost to income ratio ³	65% ⁴	63% ⁴	64% ⁴

(All figures from RBS statutory accounts and results presentations)

Notes:

1. Eligible assets held for contingent liquidity purposes including cash, Government-issued securities and other eligible securities with central banks
2. Based on end-point CRR Tier I capital and revised Basel III leverage ratio framework
3. Excluding restructuring and conduct charges
4. Represents go-forward business only pro forma for current CIB strategy
5. Segmental adjusted ROE calculated using a 28% notional tax rate and equity equivalent to 11-15% of average segmental RWAs for various segments.
6. Segmental adjusted ROE calculated using a 25% notional tax rate and equity equivalent to 12% of average segmental RWA.
7. Based on RBS 2013 disclosure regarding core bank.

Commenting on the Group's performance in 2015, Ross McEwan, CEO, said:

"RBS made progress again in 2015. We ended the year a simpler, stronger bank with a business anchored squarely in the UK and Ireland, focused on retail and commercial markets.

Year one of our plan in 2014 was about getting cost out and improving our capital position. This gave us the platform to go further, faster in 2015 by exiting more businesses that didn't fit our strategy, and accelerating improvements in our core bank. We delivered on both.

Simpler and stronger

Over the last few years, RBS has built a good track record in restructuring and we reinforced that record in 2015. The sale of Citizens was completed early following the largest US bank IPO ever. We are well through the sale of our international private banking business, and are winding down our non-UK transaction services business. Major loan portfolios have been divested, and the progress continues on the complex process to exit 25 of the 38 countries in our international network. We also marked the end of RBS Capital Resolution (RCR), having substantially completed its run-down one year ahead of schedule.

Our progress on exits and disposals has supported a substantial uplift in capital strength, with our CET1 ratio up by 430 basis points over the year to 15.5%.

Like other banks, we continue to look for opportunities to resolve legacy conduct issues on terms we believe to be acceptable. We have recently added to our provisions in relation to residential mortgage-backed securities in the US (RMBS) and Payment Protection Insurance (PPI). We hope to conclude many of the remaining substantial conduct and litigation issues over the coming year, but the timing of many of these matters is not in our hands.

An improving core bank

As well as exiting businesses that don't fit our strategy, we have made strong progress in improving our core retail and commercial franchises. Mortgage and commercial lending showed healthy growth over the year as we played a key role in supporting the UK economy.

Focus continues around simplifying processes as the scale and footprint of the bank is reshaped. At an operational level, we have reduced our London property footprint, further rationalised and simplified our systems, and increased stability across our core platforms. Simplification across the bank has helped reduce our cost base by £983 million this year.

We have also improved our products and service for customers. Our new current account proposition – Reward – is a further step forward in terms of our offering, with our customers receiving 3% cashback on their household bills. This product is geared toward building stronger and deeper customer relationships. Across our franchises we demonstrated further commitment to becoming a fair bank that earns the trust and loyalty of its customers. We launched a progressive three year fixed premium rate home insurance product made £100 and £250 overdrafts automatically available to an additional one million customers, and launched new cards for visually impaired customers that secured approval from the Royal National Institute of Blind People (RNIB).

Our underlying performance over the year shows the strength – and further potential – of our core businesses, but the conduct and restructuring issues mentioned have taken their toll on our bottom line.

While adjusted operating profit for the year totalled £4,405 million, we recorded a full year attributable loss of £1,979 million."

Investment in RBS

The Government's investment in RBS was made in three different tranches, as summarised in the table below. The gross cost of these investments was £45,527m at an average cost per share of 502p. Taking into account underwriting fees received, and the DAS Retirement Dividend agreed with RBS, the net cost of the Government's remaining investment in RBS is £43,709m, equivalent to an average of 482p per share. Taking into account all fees received including the £2,504m Asset Protection Scheme (APS) exit fee and the £1,280m Contingent Capital Facility fees the net cost is £39,925m, equivalent to an average of 440p per share.

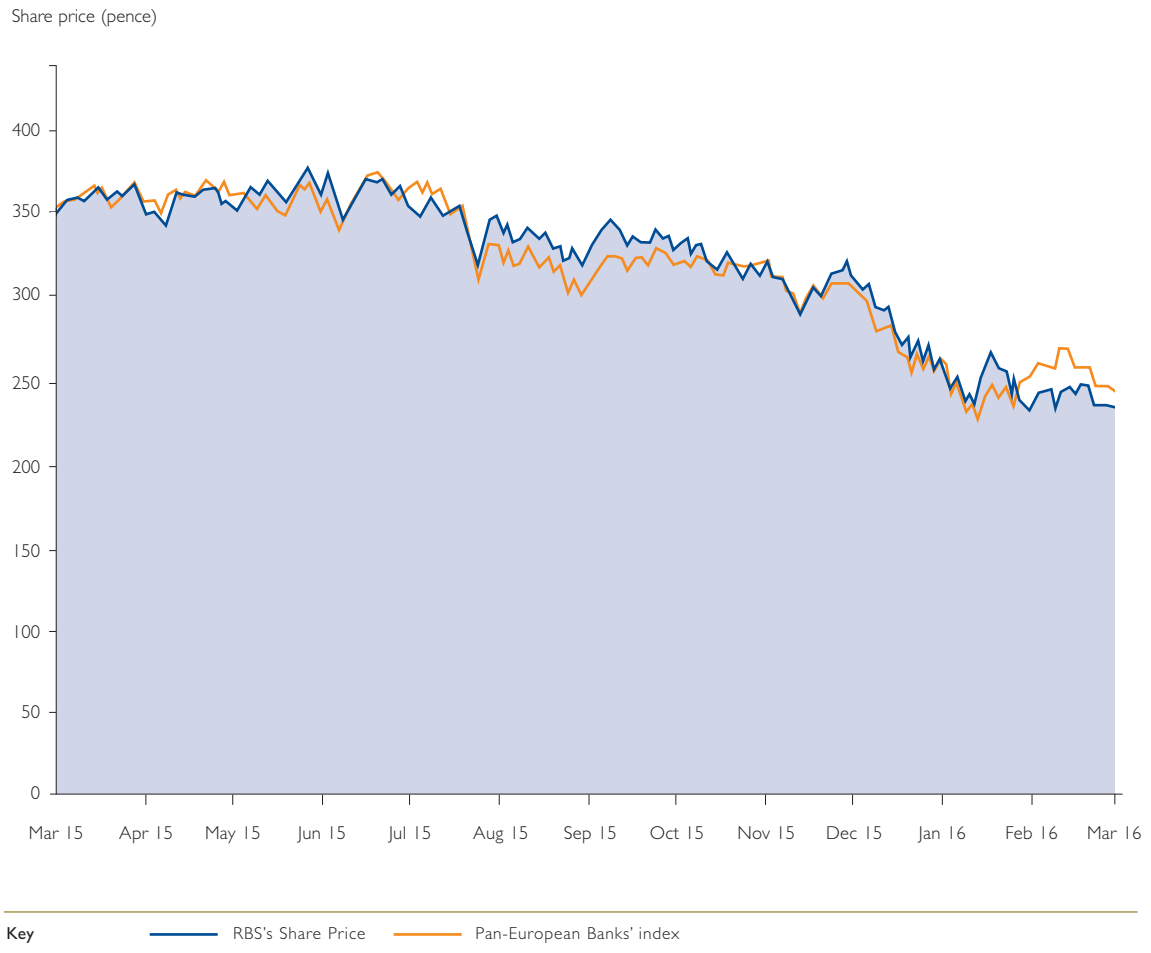
Table 2.2: HM Treasury's investment in RBS

		Shares ¹	Total investment	Investment per share
		m	£m	GBp
Initial recapitalisation	December 2008	2,285	14,969	655
Preference share conversion ²	April 2009	1,679	5,058	318
APS B shares ³	December 2009	5,100	25,500	500
Total investment		9,064	45,527	502
DAS Retirement Dividend ⁴			(1,513)	
Total investment net of dividends		9,064	44,014	486
Fees Received ⁵			(305)	
Total investment net of fees and dividends		9,064	43,709	482
APS exit fee ⁶			(2,504)	
Contingent Capital Facility Fees ⁷			(1,280)	
Total investment net of all fees and dividends		9,064	39,925	440

Notes:

1. On 6 June 2012 RBS executed a share consolidation exercise, the effect of which was to divide the ordinary share count by 10 and multiply the unit price by the same factor. The impact of this exercise is factored into the figures provided in this table.
2. Total investment includes accrued dividends and redemption premiums received of around £270m.
3. Share count of the total investment shown includes consideration of 51 billion B shares, as after the share consolidation exercise in June 2012, 10 B shares convert into one ordinary share.
4. In April 2014, RBS and HM Treasury reached an agreement to provide for the future retirement of the DAS. Following an initial payment of £320m in 2014 and a further payment of £1,193m in March 2016, the DAS has now been fully retired.
5. Underwriting fees on transactions paid to HM Treasury, including the recapitalisation and preference share conversion. Excludes annual fees paid to HM Treasury in relation to the APS and contingent capital facility.
6. In Q4 2012, RBS reached the full minimum payment of £2,500m for the implicit capital support provided by the APS since 2009.
7. In Q4 2013, RBS cancelled its Contingent Capital Facility with HMT following approval from the PRA. RBS paid a total of £1,280m of fees to HMT during the life of the facility, exiting it a year before it was due to expire.

Figure 2.1: RBS's share price performance



BOX 2.1: DEVELOPMENTS IN RBS SHAREHOLDING

As at the end of financial year 2014/15, the Government's holding in RBS was equivalent to 79 per cent economic ownership, split between four billion ordinary shares of RBS, equivalent to 62 per cent of RBS's voting share capital, and 51bn B shares, convertible into ordinary shares in the ratio of 10:1. Under the DAS retirement agreement, the Government had received the first DAS payment of £320m but was yet to receive the remaining DAS retirement amount.

During the course of the 2015/16 financial year UKFI's shareholding decreased as a result of its first sale of shares in RBS and changed in composition as the B shares were converted into ordinary shares. The DAS retirement amount was fully paid in March 2016 following approval from the PRA.

Following the announcement of the new strategy for RBS's Corporate & Institutional Banking business in February 2015, UKFI advised the Chancellor that now, with the final outstanding component of the RBS strategy confirmed, it was appropriate to start considering a first sale of RBS shares. The Chancellor agreed but before proceeding requested a full independent review of the Government's Shareholding in RBS and confirmation from the Governor of the Bank of England that he too considered it appropriate to commence the process of returning RBS to full private ownership. UKFI worked closely with Rothschild who were appointed by HM Treasury to undertake the independent review and with the PRA who advised the Governor on the financial stability considerations of commencing the RBS sale process. Following the completion of this work the Chancellor announced in his Mansion House speech his intention to start the process of returning RBS to full private ownership.

The first share sale in RBS was completed in August 2015 and raised £2,079m of proceeds with 630m shares sold at a price of 330p. This sale to institutional investors represented 5.4 per cent of the total issued share capital (including the B shares) and saw the Government's voting shareholding fall to 51.5 per cent and its economic shareholding fall to 72.9 per cent.

Following the first share sale, in October 2015 the Government converted its holding of B shares into ordinary shares in RBS. This resulted in no change in the Government's economic ownership in RBS but an increase in its voting ownership as the Government's economic and voting ownership were aligned at 72.9 per cent. The conversion represents an important milestone in the normalisation of RBS's capital structure following the interventions made during the financial crisis and is intended to facilitate further Government shares sales in future.

In March 2016, after gaining approval from the PRA, RBS paid the final DAS retirement amount. Including interest accrued since the start of 2016, RBS paid a total of £1,193m to the Government in March, bringing the total paid to retire the DAS to £1,513m. The payment marks the final step the normalisation of RBS capital structure and represents a further step towards the recommencement of ordinary dividends and the potential return of excess capital.

Summary of disposals in RBS

Method of disposal	Date	Size of disposal	Price achieved per share	Total proceeds achieved	Residual Governmental shareholding	
		Shares (m)	% of total issued share capital	GBP	£m	
Institutional Accelerated Bookbuild	August 2015	630	5.4%	330p	2,079	72.9%
DAS Retirement	March 2016	1 share	0.0%	n/a	1,513	72.3%

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Lloyds Banking Group plc

Summary of Government shareholding

As at the end of March 2016, the Government held a total of 6.5 billion ordinary shares in Lloyds Banking Group plc ("Lloyds"), equivalent to 9.1 per cent of the total issued share capital. The 31 March 2016 share price of 68.02p implied a market value of the Government's shareholding of £4.4bn.

Company overview

Lloyds is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers.

Lloyds Banking Group plc was formed in January 2009 following the acquisition of Halifax Bank of Scotland by what was Lloyds TSB at the time. The main activities are retail, commercial and corporate banking, general insurance and life, pensions and investment provision.

The Group has a large and diversified customer base in the UK, providing services through a number of brands including Lloyds Bank, Halifax, Bank of Scotland, Scottish Widows and Cheltenham & Gloucester.

Company performance

The table below provides an overview of the key financial results for Lloyds from 2013 to 2015. Full details of the results, including for the first quarter of 2016, can be found on the Company's website at www.lloydsbankinggroup.com.

Table 3.1: Key financial performance metrics

	2015	2014	2013
Risk measures			
Pro forma common equity tier 1 ratio	13.0%	12.8%	10.3%
Loan to deposit ratio	109%	108%	113%
Short-term wholesale funding (<1 year)	£38bn	£41bn	£44bn
Liquidity coverage ratio – eligible assets	£123bn		
Leverage ratio	4.8%	4.9%	3.8%
Value drivers			
Statutory return on required equity	1.5%	3.0%	(1.3%)
Cost to income ratio	49.3%	49.8%	52.9%

(All figures from Lloyds statutory accounts and results presentations. Comparatives restated in keeping with most recent statutory accounts.)

Commenting on the Group's performance over the course of 2015, António Horta-Osório, Chief Executive Officer, said:

"Today's results demonstrate that the Group's simple, low risk UK-focused business model is the right one in the current environment. Our strong performance enabled the Government to further reduce its stake in 2015.

The Board is recommending a total ordinary dividend for the year of 2.25 pence per share and a special dividend of 0.5 pence. This demonstrates our progress in becoming the best bank for customers and shareholders."

Investment in Lloyds

The Government's investment in Lloyds Banking Group plc was made in three different tranches, as summarised in the table below. The gross cost of these investments was £20,313m. Taking into account both paid and announced dividends which are directly attributable to UKFI's residual shareholding, the net cost of UKFI's residual shareholding as at 31 March 2016 is equivalent to 70.1p per share.

Table 3.2: HM Treasury shareholdings in Lloyds

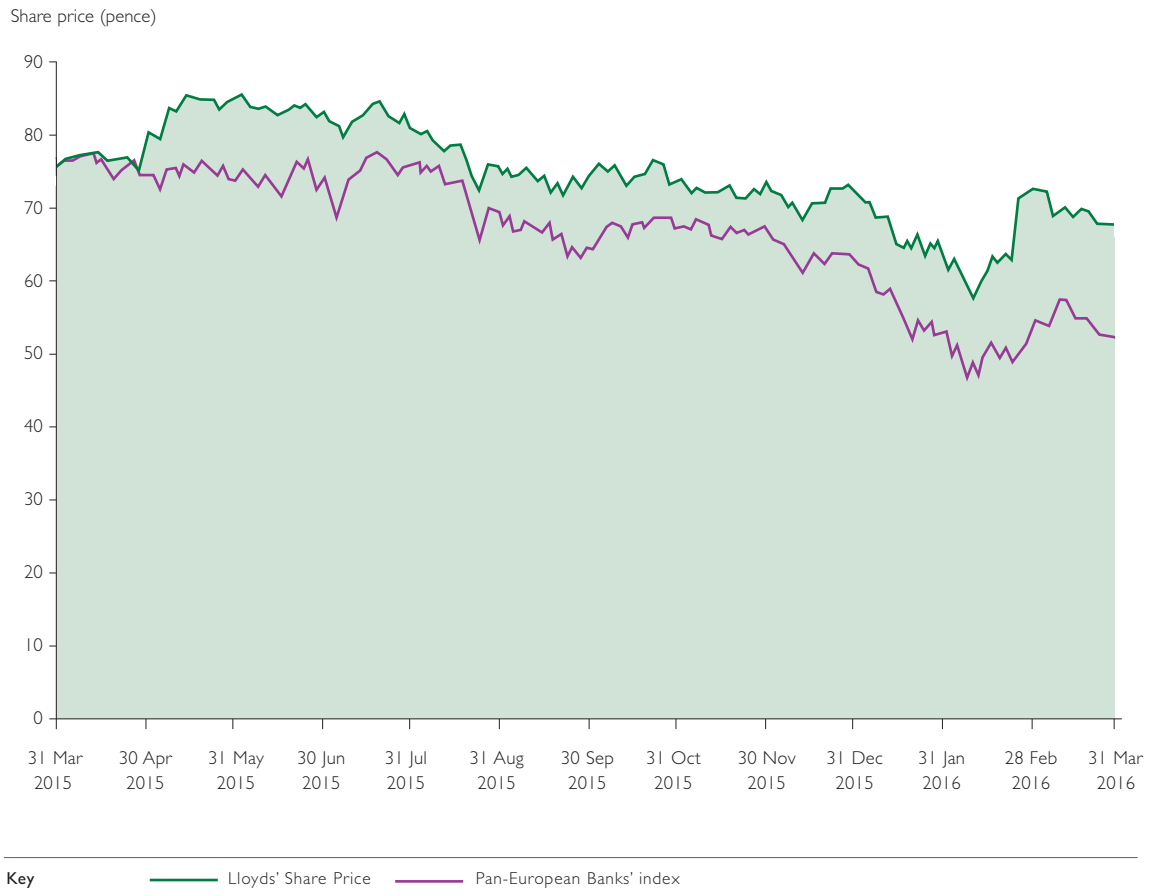
HM Treasury's investment in Lloyds on initial holding		Shares	Total investment	Investment per share
		m	£m	GBp
Initial recapitalisation ¹	January 2009	7,277	12,957	182.5
Preference share conversion ²	June 2009	4,521	1,506	38.4
Rights issue	December 2009	15,810	5,850	37.0
Total investment on initial holding		27,609	20,313	73.6
Paid dividends			(188)	
Announced but not paid dividends ³			(130)	
Fees Received ⁴			(381)	
APS Exit Fee ⁵			(2,500)	
Total Investment net of all fees and dividends on initial holding		27,609	17,115	62.0

(All figures from statutory accounts.)

Notes:

1. Includes Lloyds' capitalisation issue on 11 May 2009 (177 million shares).
2. Investment adjusted to include accrued dividends and redemption premiums of around £230m.
3. 2015 final ordinary dividend of 1.5p per share and 2015 special dividend of 0.5p per share announced with full year 2015 results but not paid until 17 May 2016. 2015 interim dividend of 0.75p per share was paid on 18 September 2015. 2014 dividend of 0.75p per share was paid on 19 May 2015.
4. Underwriting and commitment fees on transactions paid to HM Treasury, including in relation to the recapitalisation, preference share conversion and rights issue.
5. £2,500m paid by Lloyds for the implicit capital support provided by the APS in 2009.

Figure 3.1: Lloyds share price performance



BOX 3.1: DISPOSALS OF SHARES IN LLOYDS

On 17 December 2014 UKFI implemented a trading plan which was the third market operation employed by UKFI after two institutional accelerated bookbuilds in 2013 and 2014. The objective of the trading plan was to sell shares in a measured and orderly way over a defined period of time.

During the course of the 2015 financial year, UKFI extended the trading plan on two occasions. The first extension was announced on 1 June 2015 for expiry on 31 December 2015 and the second extension was announced on 4 December 2015 for expiry on 30 June 2016.

From the period beginning 17 December 2014 until 31 March 2016, a total of 11.3bn shares were sold at an average price of 81.4p per share. Total proceeds were £9,165m. This reduced the Government's shareholding to 9.1 per cent.

The Government has stated its commitment to launching a retail sale of Lloyds shares and to fully returning the bank to private ownership in the 2016/17 financial year. In order to fulfil this commitment, UKFI continued to develop the infrastructure necessary to execute a sale of Lloyds Banking Group plc shares to retail investors at the appropriate time.

Summary of disposals in Lloyds

Method of disposal	Date	Size of disposal	Price achieved per share	Total proceeds achieved	Residual Government shareholding	
		Shares (m)	% total issued share capital	GBP	£m	
Institutional Accelerated Bookbuild	September 2013	4,282	6.0%	75.0p	3,212	32.7%
Institutional Accelerated Bookbuild	March 2014	5,555	7.8%	75.5p	4,194	24.9%
Trading Plan	17 December 2014 to 31 March 2016	11,263	15.8%	81.4p	9,165	9.1%

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UK Asset Resolution Ltd

Summary of Government shareholding

UKFI is responsible for managing the Government's 100 per cent shareholding in UKAR, and its subsidiaries, Bradford & Bingley plc and NRAM plc, on behalf of HM Treasury.

Company overview

On 1 October 2010 UKFI announced the establishment of UKAR as the single holding company to manage, on an integrated basis, the closed mortgage books of both NRAM plc and Bradford & Bingley plc. UKAR provides common governance, management and operations to both subsidiaries although both remain as separate legal entities with their own balance sheet and their own Government support arrangements. The integration of the two companies, which was completed during the first half of 2012, created a larger entity, enjoying economies of scale, increased efficiency and shared capability in arrears management and treasury functions which is facilitating the accelerated repayment of Government loans. Since UKAR was formed, £20.4bn (42 per cent) of the Government loans have been repaid.

Following the split of Northern Rock on 1 January 2010, NRAM holds and services the closed mortgage book of the original Northern Rock. In December 2015 NRAM sold £13bn of assets to affiliates of Cerberus Capital Management LP (Cerberus) generating a premium of £280m over the book value of the assets at 30 June 2015. The cash proceeds from the sale were used to repay the outstanding Granite liabilities and the NRAM government loan. As of 31 March 2016, total assets of NRAM were £12.6bn, of which £10.6bn were loans to customers.

Bradford & Bingley was brought into public ownership by way of a Transfer Order on 29 September 2008. The Transfer Order also facilitated the sale of the UK and Isle of Man retail deposit business, including all of Bradford & Bingley's retail deposit accounts and its branch network, to Abbey National plc, part of the Santander Group. As of 31 March 2016, total assets of Bradford & Bingley were £30.7bn, of which £25bn were loans to customers. The March 2016 Budget announced that UKFI and UKAR are exploring options for future sales to raise sufficient proceeds for Bradford & Bingley to repay its £15.7bn loan from the Financial Services Compensation Scheme (FSCS), and in turn, for the FSCS to repay its corresponding loan from HM Treasury.

The ongoing focus of both the NRAM and Bradford & Bingley businesses is an orderly run-down of their closed mortgage books and the repayment of their Government loans. Neither of the companies holds deposits or offers additional mortgage lending – EU State aid constraints prevent the companies from taking on new business. In 2015/16, UKAR was appointed by HM Treasury to administrate the Help to Buy: ISA scheme on its behalf, in addition to the Help to Buy: mortgage guarantee scheme that UKAR undertook in 2013.

The year ending 31 March 2016 is the fifth year in which UKAR has produced consolidated results for the group. At 31 March 2016 UKAR owed HM Treasury £28.3bn, an amount which the Company expects to repay in full.

Company performance

Table 4.1: UKAR key financials

	2015/16 £m	2014/15 £m	2013/14 £m
Underlying net operating income	1,151	1,408	1,486
Operating expenses	(175) ¹	(174) ²	(188) ³
Loan impairment credit/(loss)	78	151	(46)
Underlying profit/(loss) before tax	1,055	1,398	1,259
Statutory profit/(loss) for the year	1,176	972	1,113
Loans from HM Treasury (year-end) ⁴	28,354	34,619	38,307
Shareholder funds (year-end)	7,890	7,053	6,144

(All figures from UKAR statutory accounts.)

Notes:

1. Excluding UKAR Corporate Services costs of £5.4m.
2. Excluding UKAR Corporate Services costs of £3.0m.
3. Excluding UKAR Corporate Services costs of £1.8m.
4. Figures exclude accrued interest. Loans from HM Treasury at 31 March 2015 comprise: £7.5bn HM Treasury Loan to NRAM, £18.4bn B&B Statutory Debt to HM Treasury (of which £15.7bn is owed to the Financial Services Compensation Scheme) and £2.5bn HM Treasury Working Capital Facility to B&B.

The underlying profit of the combined UKAR businesses decreased from £1,398m in 2014/15 to £1,055m in 2015/16 in line with expectations. In the year to 31 March 2016, the UKAR Balance Sheet reduced by £22.9bn (2014/15 £8.8bn) including the repayment of £6.3bn of Government loans. In addition, UKAR further simplified its balance sheet with the successful repurchase of all the remaining NRAM covered bonds and two Bradford & Bingley covered bonds.

The number of mortgage accounts under management in arrears by three months or more reduced from 11,976 at March 2015 to 6,377 at March 2016. The reduction was driven by asset sales (3,349) and strong underlying performance (2,250). Impairment on loans to UKAR customers for the year to March 2016 was a credit of £77.6m, a reduction of £73.0m from the prior year credit of £150.6m. UKAR reduced customer balances from £52.7bn at March 2015 to £35.5bn at March 2016. Operating expenses rose marginally to £175.0m in 2015/16 compared to £174.2m in 2014/15.

In November 2015 UKAR announced that, following a highly competitive process, it had successfully sold £13bn of assets to affiliates of Cerberus Capital Management LP (Cerberus) at a premium of £280m over book value. UKAR has now received all funds from the sale. UKAR also announced in May 2016 that it has signed agreements with Computershare Ltd in respect of the outsourcing of its mortgage servicing operation. This transaction will provide stability of service for Bradford & Bingley, Mortgage Express and NRAM customers and will enable UKAR to focus on continuing to wind down its mortgage book to maximise value for taxpayers by undertaking further asset sales and reducing the Government debt. Following these transactions, the Chancellor announced in the 2016 Budget the

intention to launch a programme of sales of Bradford & Bingley mortgages designed to raise sufficient proceeds for Bradford & Bingley to repay its £15.7bn debt to the FSCS and, in turn, for the FSCS to repay its corresponding loan from HM Treasury. It is expected that this programme of sales will have concluded in full before the end of 2017/18.

THE UKFI BOARD



James Leigh-Pemberton – Chairman and Accounting Officer

James joined UK Financial Investments in October 2013 as Chief Executive and in January 2014 James was appointed to the new role of Executive Chairman. On 1 April 2016 James became Non-Executive Chairman of UKFI.

Before joining UKFI, James was Managing Director and Chief Executive Officer of Credit Suisse in the UK, based in London. In this role, he was responsible for developing the Bank's client relationships in Private Banking, Investment Banking and Asset Management in the UK. He was also a member of the Credit Suisse Europe, Middle East & Africa (EMEA) Operating Committee. James held several senior roles within Credit Suisse's Investment Banking Department, including Head of European Investment Banking Department, Head of European Equity Capital Markets and Chairman of UK Investment Banking. He joined Credit Suisse First Boston (CSFB) in 1994. Prior to joining CSFB, he was a Director of S.G. Warburg Securities, where he worked for 15 years.

James received his M.A. from Oxford University.



Oliver Holbourn – Chief Executive Officer

Oliver Holbourn was appointed to the role of Chief Executive of UK Financial Investments on 1 April 2016. Oliver joined UKFI in 2013 as Head of Capital Markets and was subsequently made Head of Market Investments in 2014.

Before joining UKFI Oliver worked at Bank of America Merrill Lynch for 13 years, where he undertook various roles including head of equity syndicate for Europe and head of UK equity capital markets origination.

Oliver holds a law degree from Oxford University.



Marshall Bailey – Non-Executive Director

Marshall has extensive capital markets and financial institutions experience gained over 25 years in Canada, Japan, Switzerland and the United Kingdom. At UBS he was in FX sales and trading. He led the RBC Capital Markets global coverage of central banking clients, and was Managing Director and Head of Global Financial Institutions for EMEA and Asia prior to moving to State Street Bank and Trust, where he was COO, Chairman of State Street Global Markets International and CEO of the London Branch of State Street Bank Europe Ltd.

Marshall is currently Global President of ACI Financial Markets Association, facilitating education and endorsement of ethical conduct in wholesale financial markets. He is also the non-executive Chairman at CIBC Capital Markets plc in London, and non-executive Chairman of the Risk Committee and board member at Chubb Insurance in Europe.

Marshall is a Chartered Financial Analyst and holds a Masters' Degree from the Graduate Institute of International Studies, Geneva.



Kirstin Baker – Non-Executive Director

Kirstin was HM Treasury's Finance and Commercial Director from January 2013 to March 2016. In this role she oversaw the Treasury's finances and Corporate Services and was a member of the Treasury Board.

Kirstin previously worked as a Senior Policy official in HM Treasury, heading the team responsible for coordinating public spending and managing many of the Treasury's interventions in individual banks in the wake of the 2008 crisis. Kirstin's earlier career was in European Policy and she worked as a Competition Official in the European Commission and in Policy Advisor roles in the Cabinet Office and the Foreign and Commonwealth Office. More recently, Kirstin was seconded to the Scottish Government, leading work on infrastructure investment.

Kirstin is a member of the Chartered Institute of Management Accountants. She was awarded a CBE in 2011 for her work during the financial crisis.



Jitesh Gadhia – Non-Executive Director

Jitesh has over 20 years' investment banking experience, having held senior positions at Blackstone, Barclays Capital, ABN AMRO and Baring Brothers. He has advised on a wide range of high profile M&A and capital raising transactions across developed and emerging markets.

Jitesh is also a Board Member of UK Government Investments and BGL Group, which owns comparethemarket.com, the UK's largest financial price comparison website.

Jitesh graduated from Cambridge University with a degree in Economics and attended the London Business School as a Sloan Fellow. He has served as a Trustee of Guy's & St Thomas' Charity and of Nesta. He was selected as a Young Global Leader by the World Economic Forum.



Jane Guyett – Non-Executive Director

Jane is the Chair of Connect Plus (M25) Ltd, a Director of DalCor Pharma (UK) Ltd and a non-executive director on the Boards of Kerry London Ltd, Trade Direct Insurance Services Ltd and UK Government Investments Ltd.

Jane spent 15 years with Bank of America Merrill Lynch where she held various roles in London and New York. She was Chief Operating Officer (EMEA) of the Global Markets Group and sat on the Board of Bank of America Securities. She began her career in Corporate Restructuring at Mitsubishi Bank Ltd London, before joining Bank of America in 1994.

Jane holds a degree in Economics.



Philip Remnant – Senior Non-Executive Director

Philip is the senior independent director of Prudential plc, Chairman of City of London Investment Trust plc, non-executive director of Severn Trent plc and a Deputy Chairman of The Takeover Panel.

Previously, Philip was a Vice Chairman of Credit Suisse First Boston in Europe and was Director General of The Takeover Panel for two years between 2001 and 2003, and again in 2010. He formerly held senior investment-banking positions with BZW and Kleinwort Benson. He is a qualified chartered accountant and has an MA in Law from New College, Oxford.

He was appointed a CBE in 2011.



Lucinda Riches – Non-Executive Director

Lucinda is a non-executive director of Ashted Group plc, CRH plc, the Diverse Income Trust plc, the British Standards Institution and ICG Enterprise Trust plc. She is also a non-executive member of the Partnership Board of King & Wood Mallesons LLP and a Trustee of Sue Ryder.

Lucinda was formerly an Investment Banker and has extensive experience in capital markets and privatisations. She began her career at Chase Manhattan Bank. Lucinda worked at UBS and its predecessor firms for 21 years until 2007. At UBS, she was a Managing Director, Global Head of Equity Capital Markets and a member of the Board of the Investment Bank.

Lucinda has an MA in Philosophy, Politics and Economics from Brasenose College, Oxford and an MA in Political Science from the University of Pennsylvania.

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Directors' Report
and Governance Statement

UKFI Board

The UKFI Board takes all major strategic decisions for the Company. The principal activity of the Company is to manage the Government's investments in financial institutions commercially to protect and create value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government's investments in an orderly and active way over time, paying due regard to the maintenance of financial stability and acting in a way that promotes competition. The company has a Framework Document and Investment Mandate with HM Treasury appropriate for an arm's-length body. These set out the key parameters for how UKFI will conduct its business, including a clear mandate to manage the investments commercially. The Framework document was updated in May 2016.

The directors are listed below with the dates of their original appointment. They provide the Company with the appropriate expertise, skills and experience required to manage the investments effectively. The UKFI Board operates to the highest standards of corporate governance and its members have over 100 years' banking experience across a wide range of areas in the sector.

Board membership	Current position	Committee membership
James Leigh-Pemberton (28/10/2013)	Chairman and Accounting Officer	R ¹
Oliver Holbourn (01/04/2016)	Chief Executive Officer	
Kirstin Baker (31/01/2013)	Treasury-Appointed Non-Executive	A (Chair)
Marshall Bailey (13/07/2014)	Independent Non-Executive	R
Jitesh Gadhia (13/07/2014)	Independent Non-Executive	R
Jane Guyett (13/07/2014)	Independent Non-Executive	A
Philip Remnant (11/03/2009)	Senior Independent Non-Executive	A
Lucinda Riches (15/01/2009)	Independent Non-Executive	R (Chair), A

Key: R = Remuneration Committee; A = Audit and Risk Committee.

1. James Leigh-Pemberton joined the remuneration committee on 19 April 2016.

On 1 April 2016 Oliver Holbourn, formerly UKFI's Head of Market Investments, was promoted to Chief Executive Officer and was appointed to the UKFI Board. On this date James Leigh-Pemberton became Non-Executive Chairman of the Board whilst retaining his responsibilities as Accounting Officer for UKFI.

The Board has put in place arrangements to manage any conflicts of interest. As part of this each director has disclosed, at the outset of their term as a director, any direct or indirect conflicts of interest they are aware of and may have in connection with being appointed a director of the Company.

The Board meets a minimum of nine times a year and on an ad-hoc basis as required. The Board met 15 times in person during this reporting period; additional discussions were held as required by telephone during the year.

The Board has oversight of the Company's activities, and this close scrutiny ensures independent checks on all aspects of the Company's activities. All committees are chaired by non-executive directors and the Chief Executive is not a member of any committees.

The Chairman considers the effectiveness of the Board on a regular basis, and also reviews compliance with the Corporate Governance Code. UKFI has complied with all relevant provisions of the Code except for not having a Nominations Committee. The Nominations Committee was formally disbanded in September 2014 following the requirement for UKFI to follow OCPA guidance and processes when recruiting Board members. This requirement superseded the role of the Nominations Committee. In order to ensure adequate oversight of succession planning, the Board as a whole approves the appointment of new directors.

As in 2015, the UKFI Board undertook a Board evaluation exercise carried out by the Chairman and the Chief of Staff. The findings were presented to the Board in February 2016. The review identified several areas for further improvement, including Board induction and training, information management and Committee reporting. An action plan has been put in place to address these areas for improvement, and most of the required changes have already been implemented. Following the formation of UK Government Investments, the UKFI Board have elected not to undertake an external review of Board effectiveness this year and will not do so going forward.

A separate performance evaluation of the Executive Chairman was led by the Senior Independent Director which included the use of a questionnaire, a non-executive only feedback session and feedback from key stakeholders.

Board committees

The Board is supported by two sub-committees to provide effective oversight and leadership: the Audit and Risk Committee and the Remuneration Committee. The Board is also supported by the Executive Management Committee, which is not a Board committee.

Audit and Risk Committee

The Audit and Risk Committee has met three times during this reporting period. All members of the Audit and Risk Committee are non-executive directors. The current members of the Committee are Kirstin Baker (Committee Chair), Jane Guyett, Philip Remnant and Lucinda Riches. Only Audit and Risk Committee members have the right to attend Audit and Risk Committee meetings. However, other individuals may be invited to attend for all or part of any meeting as and when appropriate. The Audit and Risk Committee normally meets at least three times a year and on an ad-hoc basis as required.

The Audit and Risk Committee is authorised by the Board to investigate any activity within its terms of reference as set out in the Framework Agreement and to seek any information it requires from any employee. The Board will ensure that employees cooperate fully with the Audit and Risk Committee.

The Committee has worked over the year to fulfil its detailed responsibilities including: considering the scope and planning of the audit, the audit fee and any questions of dismissal of the auditors; reviewing Financial Statements before submission to the Board; reviewing and considering reports from the auditors and the audit management letter and management response; and reviewing the operation and effectiveness of the Company's internal control systems with support of the Government Internal Audit Agency.

Remuneration Committee

The Remuneration Committee has met twice during this reporting period. The membership, details and terms of reference for the Remuneration Committee are set out in the Directors' Remuneration Report (Chapter 6).

Meetings

The number of meetings of the Board and Audit and Risk and Remuneration Committees, including individual attendance at these meetings by members, during the reporting period are shown in the table below.

Total number of meetings held in 2015/16	Board	Audit and Risk	Remuneration
	15	3	2
Board Attendance at meetings held in 2015/16			
Kirstin Baker (A)	14	3	-
Marshall Bailey (R)	13	-	2
Jitesh Gadhia (R)	15	-	2
Jane Guyett (A)	15	3	-
James Leigh-Pemberton	15	-	-
Philip Remnant (A)	14	3	-
Lucinda Riches (A, R)	15	3	2

The Board has responsibility for maintaining a sound system of governance and internal control that supports UKFI's policies and the achievements of its objectives, whilst safeguarding the public funds and assets for which the Board is collectively responsible.

Sustainability

UKFI is committed to its contribution to sustainable development. UKFI is based on the Government estate in the HM Revenue and Customs building (HMRC). We use recycled paper for day-to-day use and UKFI publications, have segregated waste streams collected for recycling, and purchase all electricity and gas through Government negotiated contracts which include 10 per cent renewable energy. We share HMRC's Facilities Management and Mail Service contractors and both contractors hold their own ISO 14001 accreditation.

Transparency

UKFI adheres to the Government's transparency agenda and publishes a range of data, either on our own website or on data.gov.uk, including:

- Directors' hospitality and expenses;
- Transactions over £25,000;
- Corporate credit card transactions over £500; and
- Awarded contracts.

Payment of suppliers

In May 2010, the Government introduced a five day target for SME suppliers to receive payment. This accelerated payment from the previous ten day target set in November 2008. During 2015/16, UKFI made 97 per cent (2014/15: 95 per cent) of all supplier payments within five days.

Review of effectiveness

The Audit Committee has decided that it is not economically viable to have an internal audit function operating within UKFI and as such utilises the services of the Government Internal Audit Agency (GIAA) to provide assurance that internal financial and operational controls and processes are strong. During the year the GIAA undertook a review into UKFI's knowledge management processes. Some improvements were recommended and are being implemented by the company.

As Accounting Officer, the Chairman has responsibility for maintaining and reviewing the effectiveness of the system of internal controls, including having a quality assurance framework in place that is used for all business critical analytical models. He has confirmed that there were no significant control issues in the year under review and that UKFI has a quality assurance framework in place.

Going concern

As described in the UKFI remit section of these annual report and accounts UKFI was set up for a finite purpose, specifically: UKFI was created in November 2008 as part of the UK's response to the financial crisis with the overarching objective to manage the shareholdings commercially to create and protect value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government's ownership stakes in an orderly and active way over time. Further detail can be found in the UKFI Framework Document and Investment Mandate published on the Company's website (www.ukfi.co.uk).

Notwithstanding this finite purpose the Directors have concluded that it is appropriate for the financial statements to be prepared on a going concern basis. This is supported by the facts that the Directors have reviewed the Company's budget and forecasts and determined it has sufficient cash resources to allow it to meet its liabilities as they fall due and that HM Treasury has stated that it will fund UKFI's operations for the next financial year. Furthermore, on 1 April 2016, UKFI's shareholding transferred from HM Treasury to UK Government Investments where it has been agreed that it will remain in its current form for at least 12 months and the foreseeable future thereafter.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

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

UKFI, in accordance with the Framework Document, has appointed the Comptroller and Auditor General as its external auditor. The National Audit Office carries out the audit for and on behalf of the Comptroller and Auditor General. The remuneration paid to the auditors is disclosed in the Financial Statements. No non-audit work was undertaken by the auditors.

Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the Financial Statements in accordance with International Accounting Standards and applicable law (International Financial Reporting Standards). The Financial Statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going-concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

This report has been approved by the Board of Directors and is signed by the Chairman on behalf of the Board of Directors.

The Accounting Officer of HM Treasury has designated the Chairman as Accounting Officer of UKFI. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKFI's assets, are set out in Managing Public Money, published by HM Treasury.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Financial Statements; and
- prepare the Financial Statements on a going-concern basis.



James Leigh-Pemberton

Chairman and Accounting Officer

4 July 2016

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06

Directors' Remuneration Report

Remuneration Chair's foreword

UKFI is heavily dependent on its employees and its ability to attract high calibre staff to deliver its objectives. This year has been one of the busiest for the organisation with a number of significant achievements including: the first disposal from the Government's shareholding in RBS, the ongoing divestment of the shareholding in Lloyds and a large sale of NRAM mortgage assets.

In spite of the heightened activity supporting these achievements the organisation has remained small averaging 15 employees over the course of the year. However, during the latter part of the year UKFI staff numbers rose to support the delivery of the Chancellor's stated pledge to return Lloyds to full public ownership via a retail offer in 2016/17. This increase in employee numbers has driven an overall increase in UKFI's staff costs.

It is important for the Company to operate a fair and transparent remuneration policy which motivates and retains high quality staff and rewards delivery of the Company's key strategic objectives. The increase in performance based remuneration reflects the organisation's recognition of the need to retain staff during critical business activity and the contribution of our staff to the organisation's achievements this year.

New members of staff were recruited in line with UKFI's stated policies and where secondees are recruited they are done so on the terms and conditions of their home departments. No changes were made to the Directors' or former Executive Chairman's remuneration in the year.



Lucinda Riches

Chair of the Remuneration Committee

4 July 2016

Remuneration Committee

The Remuneration Committee operates as a sub-committee of the UKFI Board. The membership of the Committee comprises the Chair of the Board and non-executive directors and shall consist of not less than three members. The Board is responsible for any new appointments to the Remuneration Committee. The current members of the Remuneration Committee are Lucinda Riches (Committee Chair), Jitesh Gadhia, Marshall Bailey and James Leigh-Pemberton. James Leigh-Pemberton joined the committee on 19 April 2016 subsequent to the year end.

The Remuneration Committee meets a minimum of two times per year and on an ad-hoc basis as required. The Remuneration Committee met twice in this reporting period. Only members of the Remuneration Committee have the right to attend Remuneration Committee meetings. However, other individuals may be invited to attend for all or part of any meeting as and when appropriate.

The Remuneration Committee has worked over the year to fulfil its responsibilities to:

- approve and agree with HM Treasury the remuneration levels for UKFI directors;
- approve UKFI's broad policy relating to remuneration for all UKFI employees;
- ensure that the individuals for whom the Remuneration Committee is responsible are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contributions to the success of UKFI;
- periodically review the broad policy and make recommendations to the Board for changes, as appropriate;
- review and by reference to the broad policy applying from time to time approve the terms of any contract of employment and remuneration arrangements, including any annual or longer-term incentive packages and pension rights of the Chairman and Executive Directors, if required;
- review the executive recommendations on, and approve the remuneration of, any employee who is a member of the Executive Committee;
- monitor against the agreed Board policy:
- the level and structure of total remuneration for senior management; and
- the application of the policy across the whole organisation to ensure transparency, fairness and consistency;
- approve both the policy for and any compensation packages or arrangements following the severance of the employment contract applicable to the Chief Executive or Chairman, or direct report to the Chief Executive or Chairman (and any other member of staff where the terms proposed are unusual or exceptional) with a view to ensuring that the individual is treated fairly, but that failure is not rewarded.

Remuneration Policy

In approving the remuneration for Board members and other UKFI employees, the Remuneration Committee takes into account all factors which it deems necessary, including that HM Treasury's interest is primarily in ensuring that remuneration levels:

- deliver value for money;
- are sufficient to attract and motivate high-calibre individuals to drive the delivery of the activities and objectives set out in the Framework Document;
- are in line with best practice, linked to performance, with no reward for failure or excessive risk taking; and
- are aligned with the objectives set out in the Framework Document and Investment Mandate.

UKFI operates a performance appraisal system and performance is reviewed semi-annually. Performance-related pay is awarded in relation to performance linked to the annual staff appraisal and takes the form of bonus payments for those staff who have performed well in their roles.

Any UKFI performance-related pay is calculated as a fraction rather than multiple of salary. It is UKFI's policy that in general executive directors are entitled to be considered for variable pay each year on the basis of their performance. However, in 2015/16 the only executive director was the Executive Chairman who was not entitled to a bonus.

UKFI is a small organisation, the breakdown of staff resources is given below to accommodate FReM and Companies Act 2006 reporting requirements.

	UKFI employees	UKFI non-executive directors
Full time equivalents as at 31st March 2016	20 (15)	1 (1) ¹
Average full time equivalents over 2015/16 period	15 (15)	1 (1) ¹
Average Headcount over 2015/16	15 (16)	6 (5)

* Figures in brackets relate to 2014/15.

¹ Non-executive director roles are accounted for on a part time basis equivalent to 20% of a full time role.

It is important that the pay policy is flexible enough to respond to individual circumstances where necessary.

UKFI is not part of the civil service and its permanent posts are occupied by staff with directly relevant expertise from the private sector. UKFI recruitment procedures are based on the principles of fair and open competition and selection on merit.

Information on UKFI's total remuneration can be found in the UKFI Financial Statements in Chapter 8.

Directors' remuneration policy

A summary of the remuneration policy for executive directors can be found in the table below:

Elements of remuneration	Purpose	Operation	Maximum potential value	Performance metrics
Base salary	To recruit and retain executive directors.	Paid monthly and reviewed annually.	Determined annually.	N/A
Pension	To support executive directors in long-term savings.	A defined contribution pension scheme is provided by Standard Life. Employee contributions are matched by UKFI between 3.5% and 15%.	Up to 15% of salary.	N/A
Bonus	Incentivise and reward good performance.	Bonuses are deferred over 3 years.	Up to 20% of salary.	Bonuses are awarded based on contribution of an individual to the furtherance of UKFI's objectives over the previous performance year.

Note: During the year no executive directors were entitled to bonus payments as the only executive director was the Executive Chairman who was not entitled to a bonus or a pension.

Fees for non-executive directors

A summary of the remuneration policy for executive directors can be found in the table below:

Elements of remuneration	Purpose	Operation	Maximum potential value	Performance metrics
Fees	To recruit and retain non-executive directors with the appropriate skills and experience.	Paid monthly and reviewed annually.	Determined annually.	N/A

Service contracts

UKFI's policy on duration of contracts is that directors' contracts continue for a period of 12 months to 3 years, unless terminated earlier by HM Treasury, in accordance with the Company's Articles of Association, or by either party giving written notice to the other. Upon termination of the appointment, subject to any fees outstanding, directors have no entitlement to compensation in respect to any loss.

Staff profile

Due to the small number of staff in post throughout the year, this report does not include detailed statistics on the UKFI workforce. The release of such data would enable personal information on individual staff to be identified which individual staff would have no reasonable expectation of being disclosed.

During the year UKFI staff took an average of 2.5 (2014/15: 4.4) days of sickness absence.

Changes in year

There were no changes to the board or to committee memberships in the year.

Bonuses awarded

A total of £123,358 (2014/15: £103,346) was awarded as bonuses for the performance year 1 December 2014 – 30 November 2015, of which £61,847 (2014/15: £47,457) was paid out and £61,511 (2014/15: £55,889) was retained because UKFI bonuses are deferred over 3 years and subject to clawback over the period. The total award represents 6.9 (2014/15: 5.9) per cent of staff costs incurred over the year.

The appraisal year for UKFI runs from 1 December – 30 November. Any awards made for the period December 2015 – November 2016 will be determined by the Remuneration Committee in line with the annual performance timetable in January 2017. Bonus awards are recognised in the Financial Statements over the period to which they relate.

Service contracts for 2015/16

In 2015/16 all directors' contracts were due to expire in 2017. The notice period for the termination of all directors' contracts is three months.

The Company is not liable for any compensation, except in the case of outstanding fees. Non-executive directors do not receive any compensation, other than fees for their services.

Executive directors

James Leigh-Pemberton was the sole executive director in place in the year. Details of his service contract are set out below:

Single total figure of remuneration for executive directors	Salary (£)		Bonus payments (£)		Pension (£)		Total (£)	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
James Leigh-Pemberton	180,000	180,000	-	-	-	-	180,000	180,000

Non-executive directors

Each non-executive director is paid a fee of £28,500 for their attendance at the Board, plus £4,750 for each Board committee Chairmanship held, plus £2,375 for each Board committee membership for which they are not Chairman. The Senior Independent Director is paid an additional fee of £4,750.

The table below reports the salary for each non-executive director for the period ending 31 March 2016 and has been audited by the Company's auditors. The value of non-cash benefits is zero, and salary therefore includes only gross salary.

Single total figure of remuneration for non-executive director	Salary (£)	
	2015/16	2014/15
Kirstin Baker	-	-
Marshall Bailey (from 13 July 2014)	30,875	23,168 ¹
Jitesh Gadhia (from 13 July 2014)	30,875	23,168 ¹
Jane Guyett (from 13 July 2014)	30,875	23,168 ¹
Philip Remnant	35,625	33,276 ²
Lucinda Riches	35,625	35,625

¹ Full-year equivalent: £30,875.

² Full-year equivalent: £35,625.

Note: Kirstin Baker was a member of the Board as an employee of HM Treasury and did not receive remuneration for her services.

The ratio between the highest paid director and the median pay of UKFI of £46,665 is 3.9 (2014/15: ratio of 4.3 between the highest paid director and the median pay of £41,992).

Directors' remuneration – performance-related pay

The UKFI non-executive directors and the Executive Chairman are not eligible for UKFI's performance-related pay.

Directors' expenses

Expenses claimed by the directors in the year are detailed below.

Director	Expenses (£)	
	2015/16	2014/15
Kirstin Baker	-	-
Marshall Bailey	-	80
Jitesh Gadhia	-	-
Jane Guyett	-	-
James Leigh-Pemberton	265	363
Philip Remnant	-	-
Lucinda Riches	-	-

Directors' pension arrangements

None of the non-executive directors or James Leigh-Pemberton received a pension from the Company in 2015/16.

This report has been approved by the Board of directors and is signed by the Chairman of the Remuneration Committee on behalf of the Board of directors.



Lucinda Riches

Chair of the Remuneration Committee

4 July 2016

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Independent Auditor's Report
to the Shareholders of UK Financial
Investments Limited

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UK FINANCIAL INVESTMENTS LIMITED

I have audited the financial statements of UK Financial Investments Limited for the year ended 31 March 2016 which comprise the Income Statement, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

Respective responsibilities of the directors and the 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. My 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 me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- financial statements give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its results for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on other matter prescribed by the Companies Act 2006

In my opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; 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
- I have not received all of the information and explanations I require for my audit.

Peter Morland

Senior Statutory Auditor

4 July 2016

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

London

SW1W 9SP

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UK Financial Investments Ltd
Financial Statements

Income Statement for the year ended 31 March 2016

	Note	Mar-16 £000	Mar-15 £000
Revenue	3(e), 4	8,526	3,558
		8,526	3,558
Expenses and fees incurred on asset disposals		6,104	1,115
UKFI Administrative Expenses		2,422	2,443
		8,526	3,558
Profit/(Loss) Before Corporation Tax	2-7	0	0
Taxation	3(f)	0	0
Profit/(Loss) for the Period		0	0

The notes on pages 61 to 72 are an integral part of these financial statements.

The company had no recognised gains or losses in the year other than those included in the income statement and therefore no separate statement of comprehensive income has been prepared.

All activities are classified as continuing.

Statement of Financial Position as at 31 March 2016

	Note	31 Mar 16 £000	31 Mar 15 £000
Non current Assets			
Property, plant and equipment	8	25	29
Total non current assets		25	29
Current Assets			
Trade and other receivables	9	2,292	163
Cash and cash equivalents	10	4,235	738
Total Current Assets		6,527	901
Total Assets		6,552	930
Equity			
Share capital	11	0	0
Retained earnings		0	0
Total Equity		0	0
Current Liabilities			
Trade and Other payables	12	6,489	872
Total Current Liabilities		6,489	872
Non current Liabilities			
Trade and other payables	13	63	58
Total Non current Liabilities		63	58
Total Liabilities		6,552	930
Total Equity plus Liabilities		6,552	930

The notes on pages 61 to 72 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 4 July 2016 and were signed on its behalf by:



James Leigh-Pemberton
Chairman and Accounting Officer

UKFI Company Number 6720891

Statement of Cash Flows for the year ended 31 March 2016

	Note	31 Mar 16 £000	31 Mar 15 £000
Cash flows from operating activities			
Profit/(Loss) for the period		0	0
Adjustments for:			
Depreciation	8	12	7
		<u>12</u>	<u>7</u>
Decrease/(increase) in trade and other receivables	9	(2,129)	549
(Decrease)/increase in trade and other payables	12, 13	5,622	(11)
Net cash from operating activities		<u>3,493</u>	<u>545</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(8)	(33)
Net cash used in investing activities		<u>(8)</u>	<u>(33)</u>
Net increase/(decrease) in cash and cash equivalents		<u>3,497</u>	<u>512</u>
Cash and cash equivalents at 1 April	10	738	226
Cash and cash equivalents at 31 March	10	4,235	738

The notes on pages 61 to 72 are an integral part of these financial statements.

Notes to the Financial Statements

1. Reporting entity

UK Financial Investments Limited (the "Company") is a Company domiciled in the UK. The address of the Company's registered office is 27-28 Eastcastle Street, London W1W 8DH. The Company operates as an investment management business under the terms of the Companies Act 2006.

2. Basis of preparation

(a) Statement of compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These Financial Statements are prepared in accordance with the Government's Financial Reporting Manual (FRM) where this exceeds the requirements of the Companies Act 2006.

The Financial Statements were authorised for issue by the Board of Directors on 4 July 2016.

(b) Basis of measurement

The Financial Statements have been prepared on the historical cost basis.

As described in the UKFI remit section of these annual report and accounts UKFI was set up for a finite purpose, specifically: UKFI was created in November 2008 as part of the UK's response to the financial crisis with the overarching objective to manage the shareholdings commercially to create and protect value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government's ownership stakes in an orderly and active way over time. Further detail can be found in the UKFI Framework Document and Investment Mandate published on the Company's website (www.ukfi.co.uk).

Notwithstanding this finite purpose the Directors have concluded that it is appropriate for the financial statements to be prepared on a going concern basis. This is supported by the facts that the Directors have reviewed the Company's budget and forecasts and determined it has sufficient cash resources to allow it to meet its liabilities as they fall due and that HM Treasury has stated that it will fund UKFI's operations for the next financial year. Furthermore, on 1 April 2016, UKFI's shareholding transferred from HM Treasury to UK Government Investments where it has been agreed that it will remain in its current form for at least 12 months and the foreseeable future thereafter.

(c) Functional and presentation currency

These Financial Statements are presented in pounds sterling, which is the Company's functional currency. All financial information has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. There were no such estimates or judgements in this period.

Notes to the Financial Statements (continued)

(e) Statement of changes on tax payers equity

Management fees are recognised in the income statement as they are earned. As described in the UKFI Framework Document section paragraph 5.2 ‘...periodical management fee being representative of the anticipated costs and expenses to be incurred by the Company in effecting its investment strategies and otherwise fulfilling its responsibilities under the Framework Document’. Therefore, the Company is not permitted to make a profit or a loss.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

(a) Foreign currency

Transactions which are denominated in foreign currencies are translated in sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance asset date are translated into sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(b) Property, plant and equipment and intangible assets

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation. Intangible assets are measured at cost less accumulated amortisation. In line with HM Treasury Group policy, the Company does not capitalise items with a cost less than £5,000.

(ii) Subsequent costs

The cost of replacing a part of an item or property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation and amortisation

Depreciation and amortisation are calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation and amortisation are recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment and intangible assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Furniture, fixtures and fittings	3 to 10 years
Computer and telecom hardware, software and licences	3 to 10 years

Depreciation and amortisation methods, useful lives and residual values are reviewed at each year end and adjusted if appropriate.

Notes to the Financial Statements (continued)

(c) Leased assets

All of the Company's leases are classified as operating leases, and the leased assets are not recognised in the Company's statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(d) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short- and Long-term employee benefits

Short- and Long-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for that amount expected to be paid under the cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The majority of UKFI employees have their bonuses deferred over a two year period and are subject to claw-back.

(e) Revenue

Revenue, which excludes value added tax (VAT), comprises fees arising from investment management and other related services. Management fees are recognised in the income statement as they are earned, please refer to note 2(e) for further details.

(f) Corporation tax

The Company is registered for the purposes of corporation tax. As described in note 2(e) – UKFI recoup costs from HMT through a management fee for expenses incurred as described in the Framework Document and Investment Mandate. This results in an annual corporation tax liability of nil.

(g) VAT

The Company is treated as carrying on a business for VAT purposes; services provided are standard-rated for VAT purposes.

(h) Trade receivables

Trade and other receivables are stated at cost.

(i) Cash and cash equivalents

Cash and cash equivalents comprise solely of cash balances.

(j) Financial assets and financial liabilities

Financial items (such as goods and services) which are entered into in accordance with UKFI's normal purchase or usage requirements, are recognised when, and to the extent which, performance occurs, i.e. when receipt or delivery of the goods or services is made.

Receivables are recognised at cost; in accordance with IFRS 7, the carry values of short-term financial assets and liabilities (at amortised cost) are not considered different from fair value.

All financial liabilities are recognised at cost; in accordance with IFRS 7, the carrying values of short-term financial assets and liabilities (at amortised cost) are not considered different from fair value.

Notes to the Financial Statements (continued)

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2016, and have not been applied in preparing these Financial Statements. None of these are expected to have an effect on the Financial Statements of the Company.

(l) Segmental reporting

UKFI has two reportable segments: UKFI administrative expenses and expenses and fees incurred on asset disposals. The budget updates are provided to the Chief Operating Decision Maker, UKFI's Board. Certain fees incurred on asset disposals are recharged to Lloyds Banking Group, Royal Bank of Scotland Group and UKAR, please refer to note 18.

4. Income

	Mar 16 £000	Mar 15 £000
Investment management fees	2,422	2,443
Reimbursement of fees relating to asset disposals	6,104	1,115
Total	8,526	3,558

5. Remuneration of Directors

	Mar 16 £000	Mar 15 £000
Directors' emoluments	385	379
Total	385	379

Notes to the Financial Statements (continued)

6. Personnel expenses

The average number of full time equivalents working at the Company during the period was 16 (2014/15: 16). This figure includes Directors and long-term inward secondees.

The aggregate payroll costs of these people were as follows:

	Mar 16 £000	Mar 15 £000
Wages and salaries	1,477	1,458
Social Security contributions	185	176
Defined contribution plans	75	63
Contributions to other pension plans	62	56
Total	1,799	1,753

Wages and salaries include Board fees and the costs of long-term inward secondees.

Contributions to other pension plans comprises amounts recharged from HM Treasury, the Department of Energy and Climate Change, the Ministry of Justice and the Department for Work and Pensions. UKFI has no ongoing liability in respect of the underlying pension schemes.

7. Profit before tax

Profit before tax is stated after charging:

	Mar 16 £000	Mar 15 £000
Auditors' remuneration: Audit of these Financial Statements	12	12

Notes to the Financial Statements (continued)

8. Property, plant and equipment

Mar 16	IT £000	F&F £000	Total £000
Cost or valuation			
At 1 April 2015	33	6	39
Additions	8	0	8
Disposals	0	0	0
At 31 March 2016	41	6	47
Depreciation			
At 1 April 2015	(5)	(5)	(10)
Charged in year	(12)	0	(12)
Relating to disposals	0	0	0
At 31 March 2016	(17)	(5)	(22)
Carrying Value at 31 March 2016	24	1	25
Carrying Value at 31 March 2015	28	1	29
<hr/>			
Mar 15	IT £000	F&F £000	Total £000
Cost or valuation			
At 1 April 2014	103	6	109
Additions	33	0	33
Disposals	(103)	0	(103)
At 31 March 2015	33	6	39
Depreciation			
At 1 April 2014	(102)	(4)	(106)
Charged in year	(6)	(1)	(7)
Relating to disposals	103	0	103
At 31 March 2015	(5)	(5)	(10)
Carrying Value at 31 March 2015	28	1	29
Carrying Value at 31 March 2014	1	2	3

Notes to the Financial Statements (continued)

9. Trade receivables and other current assets

	Note	31 Mar 16 £000	31 Mar 15 £000
Trade receivables due from related parties	18	1,555	152
Prepayments		736	11
Other debtors		1	0
Total		2,292	163

10. Cash and cash equivalents

	31 Mar 16 £000	31 Mar 15 £000
Government Banking Service	4,235	738
Total	4,235	738

11. Called up share capital

	31 Mar 16 £	31 Mar 15 £
Authorised		
Equity: Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	1	1

12. Trade payables and other current liabilities

	31 Mar 16 £000	31 Mar 15 £000
Trade and other payables due to related parties	18	522
Other trade payables	11	11
Non trade payables and accrued expenses	705	263
Taxation and social security	73	76
Total	6,489	872

Notes to the Financial Statements (continued)

13. Non current liabilities

	31 Mar 16 £000	31 Mar 15 £000
Non trade payables and accrued expenses	55	51
Taxation and social security	8	7
Total	63	58

14. Operating leases

Total future minimum lease payments under operating leases are given below analysed according to the period in which they expire.

	31 Mar 16 £000	31 Mar 15 £000
Less than one year	120	130
Between two and five years	0	0
More than five years	0	0
Total	120	130

In the year £180,000 (2014/15: £176,000) was recognised as an operating lease expense.

15. Dividends

UKFI has no intention of making a profit at any point, and does not intend to declare a dividend at any point. No dividend was declared or paid during the year (2014/15: Nil).

Notes to the Financial Statements (continued)

16. Financial instruments

IFRS 7 and IAS 39: Financial Instruments require disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

UKFI is not exposed to significant financial risk factors arising from financial instruments. Financial assets and liabilities are generated by day-to-day operation activities rather than being held to change the risks facing UKFI in undertaking its activities.

UKFI holds the following financial assets: trade receivables due from related parties, other trade receivables and cash at bank and in hand. All are classified as 'loans and receivables' and denominated in pounds sterling (notes 9 and 10).

UKFI's financial liabilities are: trade and other payables due to related parties, other trade payables, non-trade payables and accrued expenses and taxation and social security. All are classified as 'other financial liabilities' and denominated in pounds sterling. The maturity analysis of the financial liabilities is less than one year (note 12) and more than one year (note 13).

In accordance with IFRS 7, the carrying values of short-term financial assets and liabilities (at amortised cost) are not considered different from fair value.

Market risk

Market risk is the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements. The vast majority of UKFI's transactions are undertaken in sterling and so its exposure to foreign exchange risk is minimal. UKFI's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk is the possibility that other parties might fail to pay amounts due to UKFI. Credit risk arises from deposits with banks as well as credit exposures to HM Treasury and other debtors. The credit risk exposure to HM Treasury and UKAR is considered negligible; the Company's operating costs are recovered from HM Treasury, which is financed by resources voted by Parliament and UKAR is part of the HMT Group. Surplus operating cash is only held within the Government Banking Service.

Liquidity risk

Liquidity risk is the possibility that UKFI might not have funds available to meet its commitments to make payments; this is managed through prudent cash forecasting and is considered negligible as expenses are recouped through the management fee. The mechanism is described in the UKFI Framework Document published on www.ukfi.co.uk.

17. Contingent liabilities

UKFI continues to indemnify its Directors against liabilities and losses incurred in the course of their actions as directors; these in turn are guaranteed by HM Treasury. The potential liabilities in relation to these indemnities are considered unquantifiable.

Notes to the Financial Statements (continued)

18. Related parties

As at 31 March 2016, the Company was a wholly owned subsidiary undertaking of HM Treasury which is registered in England and Wales and operates in the United Kingdom.

UK Asset resolution is considered a related party as it is Wholly Owned by HM Treasury and David Lunn, UKFI's Head of Wholly Owned, is a non-executive director of B&B, NRAM and UKAR.

Although Lloyds Banking Group falls outside the resource accounting boundary for the HMT Group, due to the substantial ownership of share capital by HM Treasury in the Group and UKFI's objectives described in Chapters 1 and 3, they have been classified as a related party.

Details of the salary and other remuneration payable to the Board are provided in the Remuneration Report.

	31 Mar 16 £000	31 Mar 15 £000
Trade receivables due from related parties		
HM Treasury	0	0
Lloyds Banking Group	1,204	0
Royal Bank of Scotland Group	99	0
UK Asset Resolution	252	152
Total	1,555	152

	31 Mar 16 £000	31 Mar 15 £000
Trade and other payables due to related parties		
HM Treasury	5,137	522
Lloyds Banking Group	563	0
Total	5,700	522

Notes to the Financial Statements (continued)

	31 Mar 16 £000	31 Mar 15 £000
Income received from related parties		
HM Treasury – provision of investment management services	2,422	2,443
HM Treasury – expenses for asset disposals	149	294
Lloyds Banking Group – expenses for asset disposals	4,616	389
Royal Bank of Scotland Group – expenses for asset disposals	139	0
UK Asset Resolution – expenses for asset disposals	1,200	432
Total	8,526	3,558

	31 Mar 16 £000	31 Mar 15 £000
Expenditure due to related parties		
HM Treasury	377	377
Total	377	377

19. Events after the reporting period

On 1 April 2016 UKFI became a wholly owned subsidiary of a new government owned company, UK Government Investments. Also on this date the Shareholder Executive, formerly sitting within the Department for Business, Innovation and Skills, transferred its operations to UK Government Investments. There has been no change to the ultimate beneficial owner of UKFI as a result of these changes.

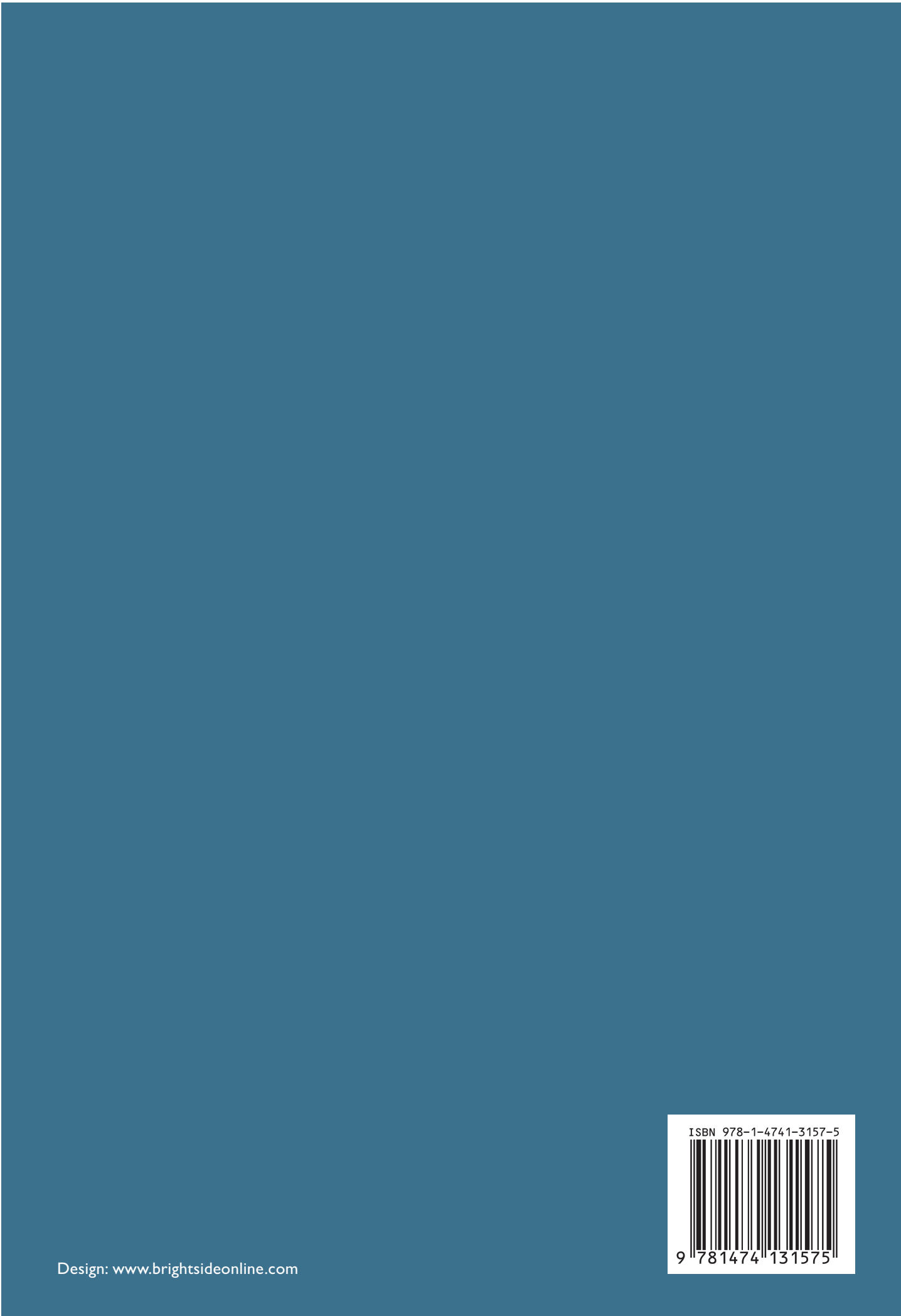
Also on 1 April 2016 Oliver Holbourn, formerly Head of Market Investments, was promoted to Chief Executive Officer of UKFI and appointed to the Board. James Leigh-Pemberton became Chairman and Accounting Officer for the company.

In May 2016 UKFI agreed with HM Treasury that the funding structure of the company would change from a management fee to a grant in aid basis. The UKFI Framework Document has been amended to reflect this change. Recharges to investee companies will continue to be treated as income.

UKFI will continue to operate under its current Framework Document (subject to the changes noted above) and Investment Mandate, and as such, UKFI will continue to focus on securing value for the taxpayer. UKFI's activities will continue to be governed by its Board whose remit and membership will remain unchanged with the exception of the appointment of Oliver Holbourn.

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.





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