UK Financial Investments Ltd

ANNUAL REPORT AND ACCOUNTS 2017/18

UK Financial Investments Ltd Annual Report and Accounts 2017/18

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

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UKFI'S REMIT

UK Financial Investments Limited (UKFI) was created in November 2008 as part of the UK's response to the financial crisis. UKFI ceased operations on 31 March 2018. On 1 April 2018 UKFI's operations, along with its assets and liabilities, transferred to UK Government Investments Limited (UKGI) which assumed responsibility for continuing UKFI's mandate. UKGI's website is www.ukgi.org.uk.

Until the end of March 2018 UKFI was responsible for managing the Government's shareholdings in The Royal Bank of Scotland Group (RBS) and Lloyds Banking Group (Lloyds) and 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 was 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 which operated at arm's-length from Government. Since 1 April 2016 UKGI has been its sole shareholder with HM Treasury as ultimate beneficial owner.

CHAIRMAN'S FOREWORD

Since 1 April 2018 activities of UKFI have been fully integrated into UKGI which will continue to manage the shareholdings of RBS and UKAR commercially and realise value in an orderly and active way over time. The activities of the former UKFI Board are now undertaken by the Transactions Committee, which is a duly appointed sub-committee of the UKGI Board. The UKFI team now forms a new specialist Financial Institutions Group within UKGI, which will continue to focus on the stewardship and divestment of the Government's remaining shareholdings in RBS and UKAR.

UKFI continued to make good progress with the execution of its mandate this financial year. The remainder of the Government's shares in Lloyds Banking Group were sold in the early part of the year, and UK Asset Resolution (UKAR) continued to make material progress in the reduction of its balance sheet, which at year end had been reduced to £19.8bn (and subsequently to £14.8bn following a further sale of B&B assets in May 2018), down from a peak level of over £115.8bn in 2010.

Following the recommencement of the disposal of Lloyds shares through a new trading plan which had reduced the Government's shareholding to less than 2 per cent by 31 March 2017, on 17 May 2017, it was announced that the Government was no longer a shareholder in the bank following the final sale of shares through the trading plan. The full exit of Lloyds represents a significant milestone for the Government, Lloyds and UKFI. Total proceeds realised from share sales and dividends received in relation to Lloyds were £21.2bn, which is approximately £900m more than the Government paid for the shares.

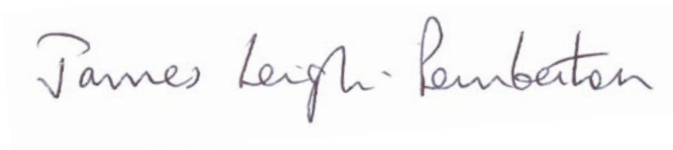
UKAR continued to make material progress in the orderly reduction of its balance sheet, announcing an £11.8bn sale of Bradford & Bingley performing buy-to-let mortgages in March 2017, with the final stage of the transaction completed in February 2018, when UKAR announced the completion of the disposal to Prudential plc and funds managed by Blackstone. Since the end of the financial year, UKAR has executed a further sale of Bradford & Bingley loans to an investor group comprising Barclays and Pacific Investment Management Company (PIMCO), raising an additional £5.3bn. These transactions have enabled the full repayment of the £15.7bn loan provided by the Financial Services Compensation Scheme (FSCS) during the financial crisis. This in turn enabled the FSCS to repay in full its outstanding loan to HM Treasury, which marks a major milestone in delivering on UKFI's objectives. We continue to evaluate options with UKAR to divest the remaining assets and manage the associated liabilities.

We continue to review opportunities to make further reductions to the Government's shareholding in RBS; the need to resolve legacy issues at the bank meant we were unable to recommend share disposals during the financial year. However, progress on legacy items has continued; RBS and HM Treasury agreed an alternative remedy package in relation to historic State Aid obligations, an agreement was reached between RBS and the Federal Housing Finance Association (FHFA) regarding the alleged misselling of Residential Mortgage Backed Securities (RMBS) in the US and the litigation with the US Department of Justice has now also been resolved. More broadly the bank continues to normalise: the core bank continues to perform well as illustrated by successive quarterly profits and the non-core division has been closed.

Shortly after the year end, Oliver Holbourn, the Chief Executive of UKFI, informed the Board that he would be leaving the company to take on a new role at RBS later in the year. Oliver joined the company in October 2013 as Head of Capital Markets, became Head of Market Investments in 2014 and was appointed Chief Executive in April 2016. He has made a significant contribution in all areas of UKFI's activities, and on behalf of the Board and all my UKFI colleagues, I would like to thank Oliver for his outstanding service to the company.

I am pleased to report that Charles Donald joined UKGI in May 2018 in the role of Head of the Financial Institutions Group. We are delighted that Charles has agreed to lead this team, and we are looking forward to working with him in the years to come.

This is the last Annual Report and Accounts of UKFI. During the nine years of its existence, the company has benefitted enormously from the wise counsel and experience of our Directors, and from the dedication and expertise of all those who have worked in UKFI. The activities of the company are reaping many benefits from our integration into UKGI, and we are well set to continue the work to discharge the mandate which the Government has entrusted to us.



James Leigh-Pemberton
Chairman and Accounting Officer
25 June 2018

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01

Strategic Report

Introduction

This chapter provides an overview of UKFI's activities, with reference to UKFI's objectives for 2017/18 including:

- a summary of how we 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; and

- a review of the principal risks and uncertainties UKFI faced;

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, took all major strategic decisions for the Company and the directors provided 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 2017/18. UKFI has produced an unqualified set of accounts for the nine years of its operation. Our direct administration expenditure for the year under review was £1.9m, of which staff costs were £1.6m. Our spending delegation for the year was £2.7m

UKFI ceased operations on 31 March 2018 and, on 1 April 2018, the operations and staff of UKFI transferred to UKGI and became the new Financial Institutions Group (FIG). At the same time, responsibility for the execution of UKFI's investment mandate (which provided the framework by which UKFI developed and executed its investment and management strategy) transferred to UKGI. HM Treasury and UKGI have entered into a Memorandum of Understanding (MoU) in relation to the management by UKGI of the Government's interest in Royal Bank of Scotland (RBS) and UK Asset Resolution (UKAR). This MoU took effect on the date of transfer and is available on the UKGI website.

UKFI has merged with UKGI to provide a single source of expertise within Government on corporate finance and governance issues, making it easier for Government experts to work together to deliver the sale of a wide range of publicly-owned assets in a way that secures good value for money for taxpayers. UKGI and UKFI provide complementary skillsets and the synergies between the two will facilitate the Government's aim of raising the efficiency and performance of large publicly-owned delivery bodies and assets.

A new sub-committee of the UKGI Board has been established, the "Transactions Committee", with a specific focus on the FIG mandate, and the Committee includes a number of members of the former UKFI Board to ensure continuity.

UKFI's role as an active and engaged shareholder

Under the framework set by the Government, UKFI was 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 aimed to ensure that value was re-established in the banks under the leadership of their own boards and management teams, to the benefit of taxpayers. Our level of involvement varied between the partly and wholly-owned institutions:

- in the case of UKAR, in which the Government is a 100 per cent shareholder, UKFI worked 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 appointed the Chairman of the Board, was required to approve board nominations, was represented by two UKFI nominated non-executive directors on the Board and had approval rights over UKAR's business plans;

- in contrast, the nature of UKFI's interaction with RBS reflected the fact that it is a listed company and that its 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 operated in line with best practice for institutional shareholders, exercising its voting rights and engaging actively with the Board 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 RBS reflected the level of Government ownership.

For both investee companies, our engagement was focused on ensuring that their business strategies, performance, governance and risk management processes were 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. Our approach to the stewardship of the investments was also informed by active dialogue with a wide range of institutional investors and analysts, with whom UKFI held regular meetings. Following integration with UKGI, the Financial Institutions Group has taken on the role of managing the shareholdings (as outlined above) previously provided by UKFI. Further details of how UKGI act in accordance with this Code are available on the UKGI website.

Engagement with UKAR

UKFI nominated two non-executive directors to the Board of UKAR. Peter Norton, Head of Banking and Capital Markets, joined the board on 6 April 2017 as one of UKFI's non-executive directors on the UKAR Board. Keith Morgan remained UKFI's other nominated non-executive director on the UKAR Board.

During the year, UKFI engaged closely with UKAR on a range of topics relating to its objectives of winding down its balance sheet. Following the execution of the £11.8bn sale of a portfolio of buy-to-let loans, we focused on options to deliver on the Government's objective to fully divest its UKAR holdings by March 2021 to deliver good value to the taxpayer while ensuring fair treatment of customers. We continued to focus on the performance monitoring under the servicing contract which UKAR entered into in 2016 and on the operating risks arising out of the significant reduction in UKAR's balance sheet. We also engaged regularly with UKAR on regulatory and legal developments to assess their impact on UKAR's operating procedures, approach to treating customers fairly and financial performance.

Engagement with RBS

Over the last year, UKFI engaged 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. UKFI's engagement remained focused on the consequences for shareholder value of several aspects of the strategy. We also maintained an active dialogue with RBS on certain legacy issues including the revised State Aid agreement.

We continued to engage with RBS to ensure that they remain focused on improving the risk management process used to underpin business decisions. We also spent time with RBS focused on the status of and developments to their technology platform where the financial sector continues to deal with legacy shortcomings and develop appropriate systems, and on monitoring the progress which RBS have made to develop a sound and durable culture.

As in prior years, and following integration with UKGI, the Financial Institutions Group voted on behalf of the Government on all resolutions put to RBS shareholders. We inform RBS of our voting intentions and rationale in advance and disclose on the UKGI 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 Board of 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. At RBS three new non-executive directors were appointed during the year. Mark Seligman joined the Board on 1 April 2017 and on 1 January 2018 took over as Senior Independent Director; Yasmin Jetha joined the Board on 21 June 2017, and Dr Lena Wilson was appointed as a Non-Executive Director on 1 January 2018. John Hughes joined the Board on 21 June 2017 but stepped down with effect from 1 September 2017 and Sir Sandy Crombie stepped down on 1 January 2018 having joined the RBS Board in 2009. Following Sir Sandy's departure Robert Gillespie became Chairman of the Performance and Remuneration Committee.

Remuneration

Remuneration in the banking sector remains a high-profile issue. UKFI worked closely with the RBS Board to ensure they exercised appropriate judgement in relation to their approach to directors' remuneration. While the bank needs to be sensitive to the wider economic, political and social environment in which it operates, it is also essential that it is able to offer remuneration packages that are adequate to attract and retain staff with the talent and experience needed to run its businesses effectively and create and sustain value for the taxpayer.

UKFI engaged closely with RBS's Performance and Remuneration Committee and concluded that the Committee exercised appropriate judgement in relation to their approach to remuneration in 2017, both in relation to financial performance and the retention of key employees.

The group bonus pool is down around 80% compared to 2009 with the pool decreasing again this year. The bank continues not to pay bonuses to executive board members or the eight highest paid senior executives below board level.

Disposals strategy

UKFI was responsible for devising and recommending to HM Treasury strategies for realising value for the Government's ownership stakes in an orderly and active way over time. Further details of how we approached this task for the investee companies are set out below.

UKAR

The Autumn 2017 Budget announced that the Government, UKFI and UKAR expect to divest the remaining assets from the former Bradford & Bingley and Northern Rock by March 2021. The Financial Institutions Group and UKAR continue to explore options to deliver the full divestment.

On 19 February 2018, UKAR announced the completion of a £11.8bn sale of Bradford & Bingley performing buy-to-let loans to Prudential plc and funds managed by Blackstone. This transaction had facilitated loan repayments to HM Treasury of £11.8bn including £11.0bn of the £15.7bn Financial Services Compensation Scheme (FSCS) loan. This sale and other actions by UKAR saw a further reduction, by £14.5bn, in its balance sheet in the twelve months to 31 March 2018, bringing the total UKAR balance sheet reduction to £95.9bn (83 per cent) since formation in 2010.

On 26 April 2018, UKAR announced the execution of a further sale of Bradford & Bingley loans to Barclays and PIMCO, raising an additional £5.3bn, which facilitated the full repayment of the £15.7bn FSCS loan provided during the financial crisis. This in turn enabled the FSCS to repay its outstanding loan to HM Treasury, which marked a major milestone in delivering on UKFI's objectives.

UKAR expect to launch further sales of Equity Release Mortgages (ERM) and NRAM Residential mortgages during 2018.

Lloyds

On 17 May 2017, the Government announced it had disposed of its final shareholding in Lloyds. Across the Lloyds disposal programme a price of 76.8p per share sold was achieved. Total proceeds, including dividends received, were £21.2bn.

RBS

In line with our mandate, we continued to seek opportunities to make further disposals of the Government's shares in RBS. However, as the Government has stated, additional progress needed to be made on legacy issues before further sales could take place. The management of RBS continue to make progress in transforming the bank and tackling legacy issues. On 27 July 2017, the Government announced an agreement in principle with the European Commission on an alternative proposal to the divestment of Williams & Glyn. The proposal was approved, and full details of the package were published on 18 September 2017. This new agreement represents a successful resolution of the outstanding obligations in relation to Williams & Glyn and has removed one of the challenges to making further disposals. Progress has also been made in relation to legacy conduct issues at RBS, and on 12 July 2017 RBS announced a settlement with the Federal Housing Finance Agency (FHFA), as conservator of Fannie Mae and Freddie Mac, to resolve claims in relation to Residential Mortgage-Backed Securities (RMBS) activities in the US. Subsequently, on 10 May 2018 RBS announced it had reached an in principle settlement with the US Department of Justice to resolve its issuance and underwriting of US RMBS.

In June 2018 UKGI, which assumed responsibility for continuing UKFI's mandate on 1 April 2018, completed the second sale of shares in RBS. This sale, through an accelerated bookbuild process, raised proceeds of £2.5bn and represented an 11 per cent reduction in the Government's stake.

Principal risks and uncertainties

UKFI actively managed the risks it faced as an organisation and put in place business and operational risk management arrangements so the Board, and through it UKFI's stakeholders, could be reassured that UKFI was operating within the risk parameters set by its Framework Document and the Investment Mandate in place between UKFI and HM Treasury. Arrangements have been made so that the risks and uncertainties which were faced by UKFI will continue to be managed in a similar fashion by UKGI.

UKFI maintained a risk register to record and facilitate the management of the risks it faced and the risks which arose from its shareholdings in the banking sector. The risk register assigned risks to the following categories: operational, strategic and project. This document was maintained by the Chief Executive Officer and 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 reviewed its operational capabilities to ensure that it had 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 was mitigated by a business continuity plan which was reviewed annually.

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

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

Strategic risks

As has previously been reported, the operating conditions for banks have remained challenging given the flattening yield curve and the continuing low interest rate environment. These conditions present challenges for our investee bank and our ability to fulfil our mandate. UKFI engaged with the bank's management regularly on plans to manage risks of this kind, and to assess how they were adapting business plans to respond.

Encouragingly, for the first time since launching in 2014, the stress tests conducted by the Bank of England's Financial Policy Committee in November 2017 concluded that no bank needed to strengthen its capital position. RBS did not meet the minimum hurdle of the Bank of England but acknowledged in their results that they had already taken steps to strengthen its capital position and therefore the Prudential Regulation Committee (PRC) did not require them to submit a revised capital plan.

Banks in the UK and elsewhere continue to face costs from legacy regulatory and conduct issues. UKFI was engaged closely with the management and Boards of 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

On 26 April 2018 UKAR announced the sale of a portfolio of Bradford & Bingley loans to a consortium including Barclays Bank and PIMCO. UKAR expects to launch further programme sales later in 2018 in line with the Government's objective to fully divest its UKAR holdings by March 2021 and we are working closely with our financial advisors and UKAR to identify risks associated with future transactions and 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. We have worked with UKGI and HM Treasury to manage and mitigate the risks relating to the integration of our operations and following the progress made last year, the Board of UKFI determined that 2017/18 would be UKFI's last financial year as an independent company. As of 1 April 2018, UKFI fully integrated into UKGI as the Financial Institutions Group.

UKGI Financial Institutions Group 2018/19 objectives

The key objectives which the UKGI Financial Institutions Group have agreed with HM Treasury for the 2018/19 reporting year are set out below.

RBS

1. To engage with the Board and management team of the bank to ensure that their strategy, performance and leadership remains 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 shareholding, 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 RBS to inform our approach to both the stewardship and disposal of the shareholding.

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.

RBS and UKAR

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.

Shareholder Relationship

7. To provide input and expertise where appropriate to support HM Treasury in relation to their policy goals in respect of financial institutions; particularly as it relates to financial stability and competition.

James Leigh-Pemberton
Chairman and Accounting Officer
25 June 2018

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02

Royal Bank of Scotland Group

Summary of Government shareholding

As at the end of March 2018, the Government held a total of 8.4bn ordinary shares in RBS, equivalent to a 70.32 per cent voting share. The share price at the end of March of 258.8p implied a market value of the Government's shareholding of £21.8bn.

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 2015 to 2017. Full details of the results, including for the first quarter of 2018, can be found on the company's website at www.investors.rbs.com/results_centre.

Table 2.1: Key financial performance metrics

	2017	2016	2015
Risk measures (Group)			
Fully loaded Basel III common equity tier 1 ratio	15.9%	13.4%	15.5%
Loan to deposit ratio	88%	91%	89%
Short-term wholesale funding (<1 year)	£18bn	£14bn	£17bn
Liquidity portfolio	£186bn	£164bn	£156bn
Leverage ratio	5.3%	5.1%	5.6%
Profitability Metrics (Core)			
Return on equity	2.2%	(17.9%)	(4.7%)
Return on equity - adjusted	8.8%	1.6%	11.0%
Cost to income ratio	79%	129%	127%
Cost to income ratio - adjusted	58%	66%	72%

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

Commenting on the Group's performance in 2017, Ross McEwan, CEO, said:

"In 2017 we continued to make good progress in building a simpler, safer and more customer focused bank. I am pleased to report to shareholders that the bank made an operating profit before tax of £2,239 million in 2017, and for the first time in ten years we have delivered a bottom line profit of £752 million.

We have achieved profitability through delivering on the strategic plan that was set out in 2014. The first part of this plan was focused on building financial strength by reducing risk and building a more sustainable cost base. So far, we have reduced our risk-weighted assets by £228 billion and today can report a Common Equity Tier 1 ratio of 15.9% up from 8.6% in 2013. Our financial strength is now much clearer. Over the same period we have reduced operating costs by £3.9 billion. We still have more to do on cost reduction, however this reflects the progress we have made in making the bank more efficient.

A clear indication of the outstanding progress we have made is that from the first quarter of 2018, we will no longer report adjusted financials.

At the same time as building financial strength, we have also made progress with the legacy of our past and improving our core bank. We have delivered on this by resolving a number of our litigation and conduct issues. This includes reaching settlements last year with FHFA in respect of our historical Retail Mortgage Backed Securities (RMBS) activities and with claimants in relation to our 2008 Rights Issue. In 2017 we also continued to run down our legacy assets. The wind-up of our noncore division, Capital Resolution in 2017, was an important moment.

As part of the support we received in 2008 and 2009, the bank was mandated to meet certain requirements under a State Aid restructuring plan. In 2017, we received approval for an alternative remedies package, which replaced our original plan to divest of the business formally known as Williams & Glyn. This is a good solution, both for improving competition in the UK SME banking market, and for shareholders.

With this solution in place and currently being implemented, the number of legacy issues the bank faces has reduced. However, we have one major legacy issue that we have yet to resolve which is with the US Department of Justice. The timing of the resolution of this issue is not in our control."

Investment in RBS

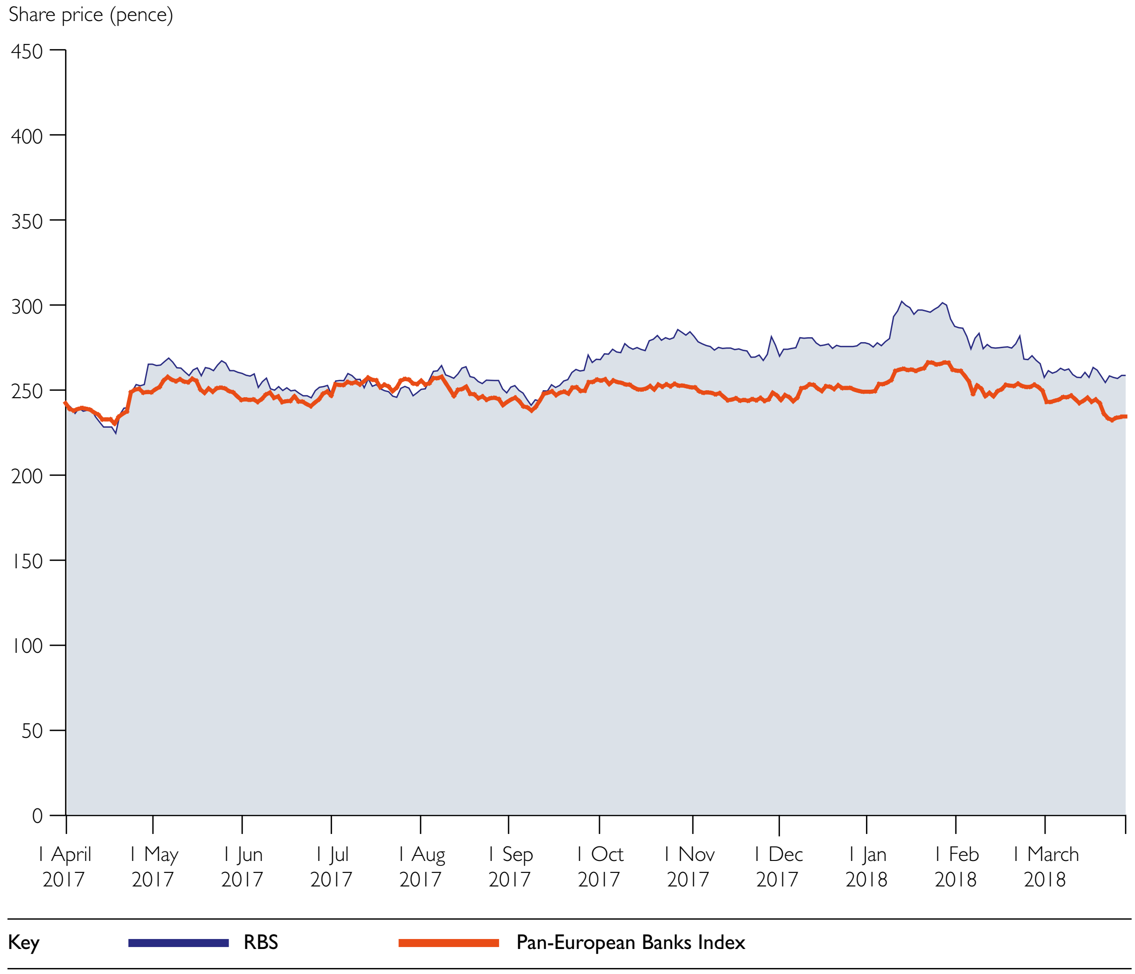
The Government's investment in RBS was made in three different tranches, as summarised in the table below. The gross cost of these investments was £45,527m at an average cost per share of 502p. Taking into account underwriting fees received, and the DAS Retirement Dividend agreed with RBS, the net cost 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	665
Preference share conversion[2]	April 2009	1,679	5,508	301
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**

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 share price performance



BOX 2.1: DEVELOPMENTS IN RBS SHAREHOLDING

As at the end of financial year 2017/18, the Government's holding in RBS was equivalent to 70.3 per cent economic and voting ownership. This reflects the completion of the first sale of the Government's shares in RBS, the conversion of its holding of B shares into ordinary shares, and the retirement of the Dividend Access Share (DAS).

UKFI completed its first sale of shares in RBS in August 2015, raising £2,079m of proceeds through the sale of 630m shares at a price of 330p per share. This sale to institutional investors represented 5.4 per cent of the total issued share capital. Under the DAS retirement agreement, the DAS retirement amount was fully paid in March 2016 following approval from the Prudential Regulation Authority (PRA). 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.

In Summer 2017 significant progress was made in resolving the ongoing legacy issues at RBS. In July the Government reached agreement with the Commission on an alternative package of State Aid remedies that would fulfil the historic obligation for RBS to divest the Williams & Glyn business, and the bank reached a settlement with Federal Housing Finance Agency (FHFA).

At the end of 2017, RBS made another significant step towards normalisation by closing RBS Capital Resolution (RCR) and folding assets marked for wind down back into the originating businesses. RBS is now reporting results on a group basis, ending the disaggregation of the Core and Non-Core Business.

On 10 May 2018 RBS announced it had reached a settlement with the US Department of Justice to resolve its issuance and underwriting of US residential mortgage-backed securities.

In June 2018, UK Government Investments, which assumed responsibility for continuing UKFI's mandate on 1 April 2018, completed a second sale of shares in RBS. This sale, through an accelerated bookbuild process, raised proceeds of £2,507m and represented a further 11 per cent reduction in the Government's stake in RBS.

Summary of disposals in RBS

Method of disposal	Date	Size of disposal		Price achieved per share	Total proceeds achieved	Residual Government shareholding
		Shares	% of total issued share capital	GBp	£m	%
Institutional Accelerated Bookbuild	August 2015	630m	5.4%	330p	2,079	72.9%
DAS Retirement	March 2016	1	0.0%	n/a	1,513	72.3%
Institutional Accelerated Bookbuild	June 2018	925m	7.7%	271p	2,507	62.4%

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Lloyds Banking Group

Summary of Government shareholding

The Government's shareholding in Lloyds was significantly reduced by the start of the financial year and, on 17 May 2017, HM Treasury announced the Government were no longer a shareholder in the bank.

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 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 2015 to 2017. Full details of the results, including for the first quarter of 2017, can be found on the Company's website at www.lloydsbankinggroup.com.

Table 3.1: Key financial performance metrics

	2017	2016	2015
Risk measures			
Pro forma common equity tier 1 ratio	13.9%	13.0%	13.0%
Loan to deposit ratio	110%	109%	109%
Short-term wholesale funding (<1 year)	£29bn	£35bn	£38bn
Liquidity coverage ratio – eligible assets	£121bn	£121bn	£123bn
Leverage ratio	5.4%	5.3%	4.8%
Profitability Metrics			
Return on tangible equity	8.9%	6.6%	1.5%
Cost to income ratio	46.8%	48.7%	49.3%

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

Investment in Lloyds

The Government's investment in Lloyds Banking Group was made in three different tranches, as summarised in the table below. The gross cost of these investments was £20,313m at an average cost per share of 73.6p. Taking into account fees and dividends received, the net cost on the initial holding was £17,030m, equivalent to 61.7p per share.

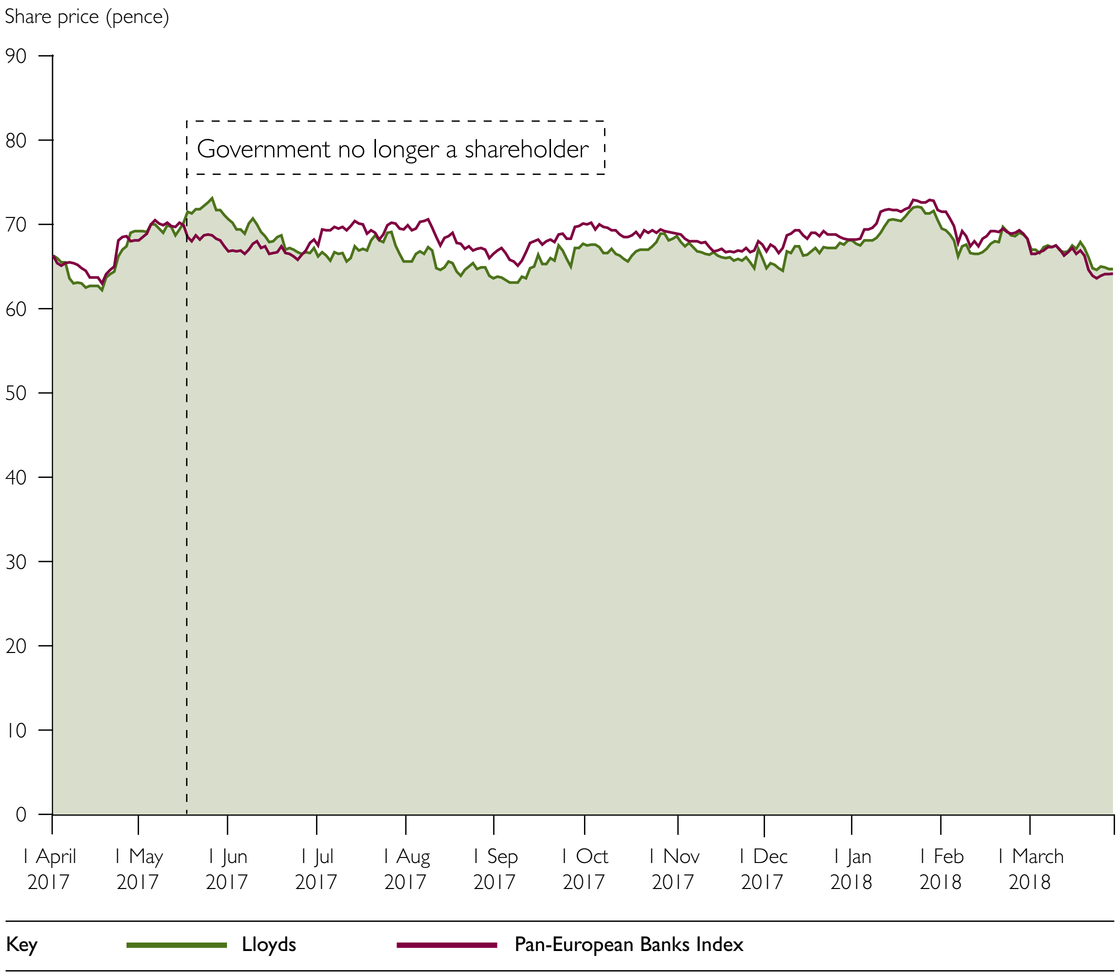
Table 3.2: HM Treasury's investment in Lloyds on initial holding

		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			(373)	
Announced but not paid dividends[3]			(29)	
Fees received[4]			(381)	
APS exit fee[5]			(2,500)	
Total investment net of all fees and dividends on initial holding		**27,609**	**17,030**	**61.7**

(All figures from statutory accounts)

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. *2016 final ordinary dividend of 1.7p per share and 2016 special dividend of 0.5p per share announced with full year 2016 results but not paid until 16 May 2017. 2016 interim dividend of 0.85p per share was paid on 28 September 2016. 2015 final ordinary dividend of 1.5p per share and 2015 special dividend of 0.5p per share were paid on 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 2015/16 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 and expired on 30 June 2016.

From the period beginning 17 December 2014 until the expiration of the first trading plan on 30 June 2016, a total of 11.3bn shares were sold at an average price of 81.4p per share. Total proceeds were £9,174m. This reduced the Government's shareholding to 9.1 per cent as at 30 June 2016.

A new trading plan was announced on 7 October 2016 for a period of up to 12 months. Under this trading plan the remaining 6.5bn shares held by the Government were sold at an average price of 65.0p per share. Total proceeds were £4,225m. On 17 May 2017, the Government announced it had disposed of its final shareholding in Lloyds

Across the Lloyds disposal programme a price of 76.8p per share sold was achieved. Total proceeds, including dividends received, were £21,207m.

Summary of disposals in Lloyds

Method of disposal	Date	Size of disposal		Price achieved per share	Total proceeds achieved	Residual Government shareholding
		Shares (m)	% of 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 1	17 December 2014 to 30 June 2016	11,275	15.8%	81.4p	9,174	9.1%
Trading Plan 2	7 October 2016 to 17 May 2017	6,497	9.1%	65.0p	4,225	0%

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UK Asset Resolution Ltd

Summary of Government shareholding

UKFI was responsible for managing the Government's 100 per cent shareholding in UKAR, and its subsidiaries, Bradford & Bingley plc and NRAM ltd, 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 and Bradford & Bingley. 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, £38.4bn of 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 November 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. In May 2016 the Government received the final £520m from Cerberus as part of the sale completion process.

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.

The Autumn 2017 Budget announced that the Government, UKFI and UKAR expect to divest the remaining assets from the former Bradford & Bingley and Northern Rock by March 2021. UKAR and UKGI continue to explore options deliver the full divestment

On 19 February 2018, UKAR announced the completion of the final stage of the £11.8bn sale of B&B performing buy-to-let loans to Prudential plc and to funds managed by Blackstone, which facilitated loan repayments to HM Treasury of £11.8bn including £11.0bn of the £15.7bn Financial Services Compensation Scheme (FSCS) loan.

On 26 April 2018, UKAR announced the execution of a further sale of Bradford & Bingley loans to Barclays Bank plc and funds managed by PIMCO, raising an additional £5.3bn. This facilitated the full repayment of the £15.7bn FSCS loan provided during the financial crisis which in turn enabled the FSCS to repay its outstanding loan to HM Treasury. This marked a major milestone in delivering on UKFI's objectives.

These sales and other actions by UKAR saw a further reduction in the balance sheet of £14.5bn in the twelve months to 31 March 2018, bringing the total UKAR balance sheet reduction to £95.9bn (83 per cent) since formation in 2010. UKAR expect to launch further sales of Equity Release Mortgages (ERM) and NRAM Residential mortgages during 2018. The continued 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 as 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, UKAR continues to provide this ongoing service.

The year ending 31 March 2018 is the seventh year in which UKAR has produced consolidated results for the group. At 31 March 2018 UKAR owed HM Treasury £10.3bn following the completion of the Bradford & Bingley asset disposal in 2017/18, an amount which the Company expects to repay in full.

Company performance

Table 4.1: UKAR key financials

	2017/18	2016/17	2015/16
	£m	£m	£m
Underlying net operating income	561	800	1,151
Operating expenses	148[1]	(162)[2]	(175)[3]
Loan impairment credit/(loss)	171	88	78
Underlying profit/(loss) before tax	584	706	1,055
Statutory profit/(loss) for the year	583	347	1,176
Loans from HM Treasury (year-end)	10,300	25,031[4]	28,354
Shareholder funds (year-end)	8,532	8,093	7,890

(All figures from UKAR statutory accounts)

1. *Excluding UKAR Corporate Services costs of £6.2m*
2. *Excluding UKAR Corporate Services costs of £5.7m*
3. *Excluding UKAR Corporate Services costs of £5.4m*
4. *Loans from HM Treasury at 31 March 2017 comprise: £4.6bn 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 £2.0bn HM Treasury Working Capital Facility to B&B. Shortly after the year end the B&B asset disposal completed in April 2017 and resulted in total loan repayments of £11.4bn to HM Treasury. Total loans from HM Treasury pro form for completion of the B&B disposal reduced to £13.6bn reflecting an £11bn repayment to the Financial Services Compensation Scheme and £0.4bn repayment to the Working Capital Facility.*

Underlying profit for the year to 31 March 2018 decreased by £122.1m to £583.9m reflecting reduced net interest income due to the shrinking balance sheet. Ongoing administrative expenses, excluding £6.2m UKAR Corporate Services costs, were £13.4m lower than the previous year at £148.4m. Impairment on loans to customers for the year were a credit of £170.8m, an increase of £83m from the prior year. Statutory profit before tax of £583.2m includes a £19.4m recovery of amounts paid out for previous customer remediation exercises, a fair value and hedge ineffectiveness credit of £18.8m, a £2.3m profit in relation to loan sales in prior years and a £2.3m credit for non-recurring administrative expenses, offset by a charge of £43.5m in respect of customer remediation.

The balance sheet reduced by £14.5bn to £19.8bn as at 31 March 2018 with a further reduction of £5bn in 2018 following the completion of the Bradford & Bingley asset sale to Barclays and PIMCO. Lending balances had reduced by £2.3bn (12 per cent) to £17.2bn over the year due to £11.5bn of asset sales, £2.1bn of secured residential redemptions, £0.2bn of other regular repayments. At 31 March 2018 the balance sheet also included a £11.4bn balance due from Prudential and funds managed by Blackstone following the sale of assets. This was settled in April 2018 and the proceeds used to repay Government loans.

The number of mortgage accounts under management in arrears by three months or more reduced from 4,617 at 31 March 2017 to 3,582 at 31 March 2018.

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 Executive Chairman. On 1 April 2016 James became Non-Executive Chairman of UKFI and Deputy Chairman of UKGI.

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. 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. As Global President of ACI Financial Markets Association, Marshall led the initiative for education and endorsement of ethical conduct in wholesale financial markets, which continues today.

Marshall is the non-executive Chairman at the Financial Services Compensation Scheme, and at CIBC World Markets plc, and sits on the board at Chubb European Group, and the National Commercial Bank in Jeddah, KSA.

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 Baker has over twenty years' experience in economic and finance roles in the civil service and was most recently Finance Director at HM Treasury. She previously worked as a senior policy official in the Treasury, heading the team responsible for co-ordinating public spending and managing many of the Treasury's interventions in individual banks in the wake of the 2008 financial crisis. Kirstin's earlier career was in EU policy and she worked as a competition official in the European Commission. She has also worked for the Scottish Government, leading policy on infrastructure investment.

Kirstin is a non-executive director on the boards of The Pensions Regulator and Brighton and Sussex University Hospital Trust and is Vice Chair of the Council of Sussex University. She is also an independent member of the audit committee of Clarion Housing Group and a member of the Competition Appeal Tribunal.

Kirstin was awarded a CBE in 2011 for her work during the financial crisis.

Jitesh Gadhia – Non-Executive Director

Jitesh Gadhia has over 25 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 and St Thomas' Charity and of Nesta. He was selected as a Young Global Leader by the World Economic Forum. Jitesh has been a Member of the House of Lords since September 2016.

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 (EME and Asia) 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 Independent Non-Executive Director

Philip is the senior independent director of Prudential plc and Chairman of its subsidiary, M&G Group Limited. In addition Philip is 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.

Philip was appointed a CBE in 2011.

Lucinda Riches – Non-Executive Director

Lucinda is a non-executive director of Ashtead Group plc, CRH plc, the Diverse Income Trust plc, the British Standards Institution and ICG Enterprise Trust plc.

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 took all major strategic decisions for the Company. Until 31 March 2018, when UKFI ceased operations, the principal activity of the Company was to manage the Government's investments in financial institutions commercially to protect and create value for the taxpayer as shareholder. UKFI's role was 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 promoted competition.

The company had a Framework Document and Investment Mandate with HM Treasury appropriate for an arm's-length body. These documents set out the key parameters for how UKFI conducted its business, including a clear mandate to manage the investments commercially. The Framework document was last updated in May 2016. On 1 April 2018 the UKFI Framework document was superseded by a Memorandum of Understanding between UKGI and HM Treasury outlining how UKGI would continue the activities of UKFI. This document is available on the UKGI website (www.ukgi.org.uk).

The directors are listed below with the dates of their original appointment; there were no resignations during the period. They provided the Company with the appropriate expertise, skills and experience required to manage the investments effectively. The UKFI Board operated to the highest standards of corporate governance and its members had over 100 years' banking experience across a wide range of areas in the sector.

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

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

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

The Board met a minimum of nine times a year and on an ad-hoc basis as required. The Board met eleven times in person during the final reporting period; additional discussions were held as required by telephone during the year. All relevant data was presented to the Board, including both internal and external reports. The Board considered this data acceptable as it was reviewed by the executive team who had the required expertise and experience to ensure it was of sufficient quality to support any Board decisions.

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

The Chairman considered the effectiveness of the Board on a regular basis, and also reviewed compliance with the Corporate Governance Code. UKFI 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 approved the appointment of new directors.

Following the formation of UK Government Investments Limited (UKGI), and in light of UKFI's integration into UKGI on 1 April 2018, the UKFI Board elected not to undertake an external review of Board effectiveness this year.

Board committees

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

Audit and Risk Committee

The Audit and Risk Committee met three times during the final reporting period. All members of the Audit and Risk Committee are non-executive directors. The members of the Committee are Kirstin Baker (Committee Chair), Jane Guyett, Philip Remnant and Lucinda Riches. The Chairman also attended meetings as an observer in his role as Accounting Officer for UKFI. Only Audit and Risk Committee members had the right to attend Audit and Risk Committee meetings however, other individuals were invited to attend for all or part of any meeting as and when appropriate. The Audit and Risk Committee normally met at least three times a year and on an ad-hoc basis as required.

The Audit and Risk Committee was 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 ensured that employees cooperated fully with the Audit and Risk Committee.

The Committee worked over the year to fulfil its detailed responsibilities including: considering the scope and planning of the audit and agreement of the audit fee; 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. During the year the Government Internal Audit Agency reviewed processes surrounding the UKFI accounting system and its integration into UKGI with no significant issues being identified in either case.

Remuneration Committee

The Remuneration Committee 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 2017/18	Board	Audit and Risk	Remuneration
	11	3	2
Board Attendance at meetings held in 2017/18			
Kirstin Baker (A)	8	2	-
Marshall Bailey (R)	10	-	2
Jitesh Gadhia (R)	10	-	2
Jane Guyett (A)	11	3	-
James Leigh-Pemberton (R)	10	-	2
Oliver Holbourn	11	-	-
Philip Remnant (A)	10	2	-
Lucinda Riches (A, R)	10	3	2

The Board had responsibility for maintaining a sound system of governance and internal control that supported 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 was committed to its contribution to sustainable development. UKFI was based on the Government estate, residing in 100 Parliament Street until November 2017 when it moved to 1 Victoria Street to co-locate with UKGI. 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 BEIS' Facilities Management and Mail Service contractors and both contractors hold their own ISO 14001 accreditation.

Transparency

UKFI adhered to the Government's transparency agenda and published 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 the year UKFI made 87 per cent (2016/17: 95 per cent) of all supplier payments within five days.

Internal controls

The Audit Committee decided that it was not economically viable to have an internal audit function operating within UKFI and as such utilised the services of the Government Internal Audit Agency (GIAA) to provide assurance on its internal financial and operational controls and processes.

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

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.

Following agreement with HM Treasury and UKGI the UKFI Board agreed that, in view of the significant reduction in the size of the Government's financial sector assets under UKFI's stewardship, the activities of UKFI would be absorbed into UKGI. It was agreed that these activities, along with UKFI's assets and liabilities would transfer to UKGI on 1 April 2018 and that UKFI's reporting period would be extended by one day in order that the financial statements could be prepared after the transfer took place. The financial statements have therefore been prepared on a basis other than going concern because the Directors have assessed that the company is no longer a going concern.

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 its 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.

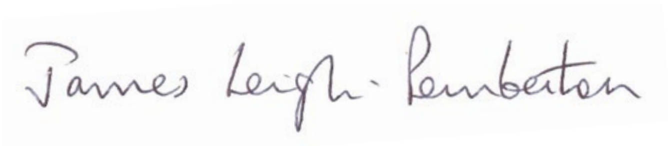
This report has been approved by the Board of Directors and is signed by the Chairman on behalf of the Board of Directors.

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, unless it is inappropriate to presume that the company will continue in business.

The Accounting Officer confirms that the annual report and accounts as a whole are fair, balanced and understandable and takes personal responsibility for the annual report and accounts and the judgements required for determining that they are fair, balanced and understandable.



James Leigh-Pemberton
Chairman and Accounting Officer
25 June 2018

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Directors’ Remuneration Report

Remuneration Chair's foreword

UKFI was heavily dependent on its employees and its ability to attract high calibre staff to deliver its objectives. The 2017/18 year was an important one for UKFI as we built on the momentum carried forward from 2016/17 and embraced new challenges in assuring a smooth integration into UKGI at the end of the period.

Despite the continuing backdrop of considerable political and market uncertainty, throughout the year UKFI succeeded in remaining flexible and responsive to the evolving environment and managed to deliver a number of significant achievements thanks to the strong efforts of its staff and leadership team.

Achievements this year built on the substantial record of those to date and included both high profile successes, such as the completion of the sale of the Government's stake in Lloyds, and less visible accomplishments, such as the laying the groundwork for future sales of RBS shares and UKAR assets along with ensuring UKFI's eventual smooth integration into UKGI. In addition, UKFI remained willing and able to provide additional ad-hoc support and advice to HM Treasury whenever this was called for.

UKFI continued to operate a fair and transparent remuneration policy which motivated and retained high quality staff and rewarded delivery of the company's key strategic objectives. The challenges in operating such a policy were all the greater in this final year with the impending transition into UKGI. The respective Boards and executive teams of both UKFI and UKGI have worked hard to ensure that staff felt supported in the transition and were given clarity as to how they would fit in, develop and progress within UKGI.

Notwithstanding this support, as is understandable, some staff have taken this as an opportunity to seek challenges elsewhere and, where this was the case, every effort was made to support these choices whilst ensuring that the operational effectiveness of UKFI remained undiminished.

Lucinda Riches
Chair of the Remuneration Committee
25 June 2018

Remuneration Committee

The Remuneration Committee operated as a sub-committee of the UKFI Board. The membership of the Committee was required to comprise at least three independent non-executive members and excluded executive members. The Board was responsible for new appointments to the Remuneration Committee. The members of the Remuneration Committee were Lucinda Riches (Committee Chair), Jitesh Gadhia, Marshall Bailey and James Leigh-Pemberton.

The Remuneration Committee was required to meet a minimum of once a year and on an ad-hoc basis as required. The Remuneration Committee met three times in this reporting period. Only members of the Remuneration Committee had the right to attend Remuneration Committee meetings. However, other individuals were invited to attend for all or part of any meeting as and when appropriate.

The Remuneration Committee 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 was responsible were provided with appropriate incentives to encourage enhanced performance and were, 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 took into account all factors which it deemed necessary, including that HM Treasury's interest is primarily in ensuring that remuneration levels:

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

UKFI operated a performance appraisal system and performance was reviewed semi-annually.

Performance-related pay was awarded based on the annual staff appraisal and took the form of bonus payments for those staff who performed well in their roles. Any UKFI performance-related pay was a fraction rather than multiple of salary. It is UKFI's policy that executive directors were entitled to be considered for variable pay each year on the basis of their performance.

The UKFI Chairman and non-executive directors were not eligible for UKFI's performance-related pay scheme.

Bonuses awarded

As more fully described in Section 1 of this report, 2017/18 was UKFI's final year of operations and because of this UKFI's appraisal year was extended to 31 March 2018 with bonus allowances pro-rated accordingly. In accordance with the bonus scheme rules all deferred bonuses were paid out on the company's final day of operations.

A total of £135,465 (2016/17: £147,095, note that these comparatives cover a 12 month period) was awarded in bonuses for the appraisal period 1 December 2016 to 31 March 2018. The total award represents 8.4 (2016/17: 7.6) per cent of staff costs incurred over the year. Bonus awards are recognised in the Financial Statements over the period to which they relate.

Directors' service contracts

UKFI's policy on duration of contracts was that directors' contracts continued 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 had no entitlement to compensation in respect to any loss. The notice period for the termination of all directors' contracts was three months.

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

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% and 15%.	Up to 15% of salary.	N/A
Bonus	Incentivise and reward good performance.	Bonuses were historically deferred over three years but the 2017/18 award was not deferred due to UKFI's cessation of operations.	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.

Fees for non-executive directors

A summary of the remuneration policy for non-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

Directors' single total figure of remuneration

Executive directors

Oliver Holbourn was the sole executive director in place in the year. Details of his remuneration are set out below:

Director	Salary (£)		Bonus[1] (£)		Pension (£)		Total (£)	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Oliver Holbourn	175,000	175,000	46,667	35,000	5,000	19,688	226,667	229,688

1. *This represents the total bonus awarded in the year. It does not include the deferred elements of bonuses awarded in prior years which were paid in this period. The bonus awarded in 2017/18 was in relation to an extended 16 month appraisal period. £35,000 of this relates to the 2017/18 reporting period.*

Non-executive directors

Each non-executive director was 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 were not Chairman. The Senior Independent Director was paid an additional fee of £4,750. The Board Chairman was paid a fee of £95,000 but was not entitled to additional fees for committee memberships or chairmanships.

The table below reports the salary for each non-executive director for the year. The value of non-cash benefits is zero, and salary therefore includes only gross salary. Non-executive directors were not entitled to bonus or pension payments.

Director	Salary (£)	Salary (£)
	2017/18	2016/17
Kirstin Baker[1]	33,250	5,542
Marshall Bailey	30,875	30,875
Jitesh Gadhia	30,875	30,875
Jane Guyett	30,875	30,875
James Leigh-Pemberton	95,000	95,000
Philip Remnant	35,625	35,625
Lucinda Riches	35,625	35,625

1. *Until 31 January 2017 Kirstin Baker was a member of the Board as an employee of HM Treasury and did not receive remuneration for her services from UKFI. From 1 February 2017 Kirstin Baker has been paid a board fee by UKFI as per the fee structure outlined above.*

Directors' expenses

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

Director	Expenses (£) 2017/18	Expenses (£) 2016/17
Kirstin Baker	-	-
Marshall Bailey	-	-
Jitesh Gadhia	-	-
Jane Guyett	-	-
Oliver Holbourn	523	401
James Leigh-Pemberton	224	157
Philip Remnant	-	-
Lucinda Riches	-	-

Staff profile

UKFI was a small organisation and as a result 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. A summary of UKFI's staff numbers can be found in the table below.

	UKFI employees	UKFI non-executive directors
Full time equivalents as at 31st March 2018	9 (11)	2 (2)[1]
Average full time equivalents over 2017/18 period	10 (14)	2 (2)[1]
Average Headcount over 2017/18	10 (14)	7 (7)

Figures in brackets relate to 2016/17

1. *Non-executive director roles are accounted for on a part time basis equivalent to 20% of a full time role with the exception of the Chairman who is accounted for on part time basis equivalent to 80% of a full time role.*

During the year UKFI staff took an average of 0.6 (2016/17: 2.1) days of sickness absence.

The ratio between the highest paid director and the UKFI median pay of £37,860 was 5.6 (2016/17: ratio of 5.7 between the highest paid director and the median pay of £37,110). Total pay includes salary, bonuses (pro rated to 12 months in instances where the appraisal period was longer than this) and any benefits in kind but excludes employer pension contributions.

UKFI was 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 were based on the principles of fair and open competition and selection on merit. Where secondees were recruited they were done so on the terms and conditions of their home departments. It was important that the pay policy was flexible enough to respond to individual circumstances where necessary. Information on UKFI's total remuneration can be found in the UKFI Financial Statements in Chapter 8.

The remuneration, expenses and staff profile sections of this report have been audited by the company's independent auditor. 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
25 June 2018

07

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

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

Opinion on financial statements

I have audited the financial statements of UK Financial Investments Limited for the period ended 1 April 2018 which comprise the Income Statement, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 1 April 2018 and of the loss for the period then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

Emphasis of Matter

Without qualifying my opinion, I draw attention to the disclosures made in Note 2b of the financial statements. The company ceased to trade on 31 March 2018 with the residual assets and liabilities transferring to its parent company, UK Government Investments Ltd on 1 April 2018. As a consequence the financial statements have been prepared on a basis other than going concern. Details of the impact of this on the financial statements are provided in Note 2b of the financial statements.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my audit report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the UK Financial Investments Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UK Financial Investments Limited's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the UK Financial Investments Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other information

Directors are responsible for the other information. The other information comprises information included in the Chairman's Foreword, Strategic Report, Royal Bank of Scotland Group, Lloyds Banking Group, UK Asset Resolution Ltd, UKFI Board and the Directors' Report and Governance Statement other than the parts of the Directors Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Directors Remuneration Report to be audited has been properly prepared in accordance with the Government Financial Reporting Manual;
- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

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 and the part of the directors' remuneration report to be audited 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; or
- a corporate governance statement has not been prepared by the company.

Peter Morland
Senior Statutory Auditor

25 June 2018

For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

ANNUAL REPORT AND ACCOUNTS
2017/18

08

UK Financial Investments Limited Financial Statements

Income statement for the period ended 1 April 2018

	Note	2017/18 £'000s	2016/17 £'000s
Revenue	3(b), 4	1,062	4,687
Total revenue		**1,062**	**4,687**
Expenses and fees incurred on asset disposals		(1,062)	(3,969)
Administrative expenses		(1,916)	(2,593)
Total expenditure		**(2,978)**	**(6,562)**
Loss before tax		**(1,916)**	**(1,875)**
Taxation	3(f), 6	7	(22)
Loss for the year after tax		**(1,909)**	**(1,897)**

The notes on pages 63 to 74 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.

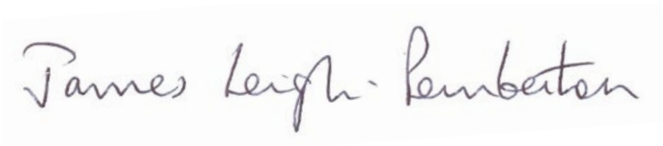
All activities ceased on 31 March 2018 as detailed in note 2(b).

Statement of financial position as at 1 April 2018

	Note	1-Apr-18 £'000s	31-Mar-17 £'000s
Non-current assets			
Property, plant and equipment	9	-	-
Total non-current assets		**-**	**-**
Current assets			
Trade and other receivables	10	-	415
Cash and cash equivalents	11	-	2,685
Total current assets		**-**	**3,100**
Total assets		**-**	**3,100**
Equity			
General reserve	3(c)	-	2,424
Share capital	12	-	-
Total equity		**-**	**2,424**
Current liabilities			
Trade and other payables	13	-	545
Provisions	14	-	131
Total current liabilities		**-**	**676**
Total liabilities		**-**	**676**
Total equity and liabilities		**-**	**3,100**

The notes on pages 63 to 74 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 25 June 2018 and were signed on its behalf by:



James Leigh-Pemberton
Chairman and Accounting Officer
25 June 2018

Company Number 06720891

Statement of cash flows for the period ended 1 April 2018

	Note	2017/18 £'000s	2016/17 £'000s
Cash flows from operating activities			
Loss for the year before tax		(1,916)	(1,875)
Adjustments for:			
Depreciation	9	-	2
Loss on disposal of fixed assets	9	-	23
Corporation tax paid	6	(14)	(1)
Decrease/(increase) in trade and other receivables	10	310	1,877
(Decrease)/increase in trade and other payables	13	8	(6,028)
(Decrease)/increase in provisions	14	(131)	131
Net cash outflow from operating activities		**(1,743)**	**(5,871)**
Cash flows from financing activities			
Grant-in-aid received from HM Treasury	3(c)	-	4,321
Net cash inflow from financing activities		**-**	**4,321**
Cash flows from absorption by UK Government Investments			
Equity transferred to UK Government Investments	2(b)	(515)	-
Adjustments for:			
Receivables transferred to UK Government Investments	2(b)	105	-
Payables transferred to UK Government Investments	2(b)	(532)	-
Net cash outflow from absorption by UK Government Investments		**(942)**	**-**
Net increase/(decrease) in cash and cash equivalents		**(2,685)**	**(1,550)**
Cash and cash equivalents at 1 April 2017 / 1 April 2016	11	2,685	4,235
Cash and cash equivalents at 1 April 2018 / 31 March 2017	11	-	2,685

The notes on pages 63 to 74 are an integral part of these financial statements.

Statement of changes in equity for the period ended 1 April 2018

2017/18	Note	Share capital £'000s	General reserve £'000s	Total equity £'000s
Balance at 1 April 2017		**-**	**2,424**	**2,424**
Loss for the year after tax		-	(1,909)	(1,909)
Total comprehensive loss for 2017/18		**-**	**(1,909)**	**(1,909)**
Net assets absorbed by UK Government Investments	2(b)		(515)	(515)
Balance as at 1 April 2018		**-**	**-**	**-**

2016/17	Note	Share capital £'000s	General reserve £'000s	Total equity £'000s
Balance at 1 April 2016		**-**	**-**	**-**
Loss for the year after tax		-	(1,897)	(1,897)
Total comprehensive loss for 2016/17		**-**	**(1,897)**	**(1,897)**
Grant-in-aid received from HM Treasury	3(c)	-	4,321	4,321
Balance as at 31 March 2017		**-**	**2,424**	**2,424**

The notes on pages 63 to 74 are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

UK Financial Investments Limited (UKFI) is a company incorporated and domiciled in the UK. UKFI is a wholly owned subsidiary of UK Government Investments Limited (UKGI) with its ultimate beneficial owner being HM Treasury. UKFI's registered office is at 27-28 Eastcastle Street, London W1W 8DH and it operated as an investment management business under the terms of the Companies Act 2006.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the EU (IFRS). In addition these financial statements follow the requirements and principles of the Government Financial Reporting Manual (FReM) to the extent that they clarify or build on the requirements of IFRS and the Companies Act 2006.

(b) Going concern

As more fully described in the Chairman's Foreword and Directors' Report, the Directors determined that 31 March 2018 was UKFI's final day of operations. On 1 April 2018 the activities of the company, along with its assets and liabilities, transferred to UKGI. Following agreement with UKGI and HM Treasury, the reporting period was extended by one day to 1 April 2018, so that the financial statements could be prepared after this transfer took place. The financial statements have therefore been prepared on a basis other than going concern because the Directors have assessed that the company is no longer a going concern.

UKFI's assets and liabilities prior to transfer to UKGI are set out below. The assets and liabilities transferred at carrying value at the point of transfer.

	Note	31-Mar-18 £'000s
Current assets		
Trade and other receivables	10	105
Cash and cash equivalents	11	942
Total assets		**1,047**
Equity		
General reserve	3(c)	515
Total equity		**515**
Current liabilities		
Trade and other payables	13	532
Total liabilities		**532**
Total equity and liabilities		**1,047**

Notes to the financial statements (continued)

(c) Functional and presentation currency

These financial statements are presented in pounds sterling, which is UKFI'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 revisions to estimates or judgements in this period.

3. 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. Any 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. There were no such monetary assets or liabilities denominated in foreign currencies in either the current or comparative periods.

(b) Revenue

Revenue, which excludes value added tax (VAT), comprises fees arising from investment management, prior to 1 July 2016, and reimbursement of fees relating to asset disposals. Revenues are recognised in the income statement as they are earned.

(c) Grant-in-aid

During the 2016/17 year UKFI's Framework Document was amended and its funding mechanism from HM Treasury was changed from a management fee to a grant-in-aid basis. This change took effect on 1 July 2016. Grant-in-aid financing is provided by HM Treasury and is credited to the general reserve as it is received.

(d) Employee benefits

i) Defined contribution plans

UKFI operates two defined contribution post-employment benefit plans under which it pays fixed contributions to separate legal entities and has no legal or constructive obligation to pay further amounts. These schemes are available to all qualifying employees. Payments to this plan are recognised as an expense when employees have rendered service entitling them to the contributions.

Notes to the financial statements (continued)

ii) Short and long-term employee benefits

Short and long-term employee benefit obligations are measured on an undiscounted basis and are recognised as the related service is provided. A liability is recognised for benefits accrued by employees in respect of wages, salaries and annual leave for the amount expected to be paid out in exchange for that service. A liability is also recognised in respect of bonuses which have been awarded but deferred, these bonuses may be subject to claw-back.

(e) Leased assets

All of UKFI's leases are classified as operating leases, and the leased assets are not recognised in UKFI'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.

(f) Corporation tax

UKFI is registered for the purposes of corporation tax but has no intention of making a profit at any point. Consequentially no deferred tax asset has been recognised in respect of losses incurred to date.

(g) VAT

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

Following UKFI's switch to grant-in-aid funding on 1 July 2016 UKFI does not reclaim VAT on its administrative expenditure. Unrecoverable VAT is included in the income statement under administrative expenditure.

(h) 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, UKFI does not capitalise items with a cost less than £5,000.

ii) Subsequent costs

The cost of replacing a part of an item of 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 UKFI 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

Notes to the financial statements (continued)

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.

(i) Trade and other receivables

Trade receivables and other are recognised at cost.

(j) Cash and cash equivalents

Cash and cash equivalents comprise solely of cash balances.

(k) Trade and other payables

Liabilities, which arise from contracts for the purchase of non-financial items (such as goods and services) which are entered into in accordance with UKFI's normal business requirements, are recognised when, and to the extent which, performance occurs.

All financial liabilities are recognised at cost.The carrying values of short-term liabilities (at amortised cost) are not considered different from fair value.

(l) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured on an undiscounted basis.

(m) 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 2018.These have not been applied in preparing these financial statements. as a result of UKFI ceasing to trade on 31 March 2018.

(n) Segmental reporting

UKFI has two reportable segments: administrative expenses and expenses incurred on asset disposals. 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 as detailed in note 19.

Notes to the financial statements (continued)

4. Income

	2017/18 £'000s	2016/17 £'000s
Investment management fees	-	718
Reimbursement of fees relating to asset disposals	1,062	3,969
Total	**1,062**	**4,687**

5. Profit before tax

Loss before tax is stated after charging:

	2017/18 £'000s	2016/17 £'000s
Auditors' remuneration: Audit of these Financial Statements	15	12

6. Taxation

Corporation tax recognised in the income statement represents:

	2017/18 £'000s	2016/17 £'000s
UK corporation tax	-	-
Prior year adjustments	(7)	22
Total	**(7)**	**22**

The corporation tax charge for the year is reconciled to the accounting loss as follows:

	Note	2017/18 £'000s	2016/17 £'000s
Loss before tax		(1,916)	(1,875)
Tax on profit at the standard rate of 19% (2017: 20%)		(364)	(375)
Effects of:			
non-deductible expenses		-	5
unrecognised deferred tax asset	3(f)	364	370
prior year adjustments		(7)	22
Corporation tax recognised in the income statement		**(7)**	**22**

Notes to the financial statements (continued)

7. Remuneration of Directors

	2017/18 £'000s	2016/17 £'000s
Directors' emoluments	585	564
Total	**585**	**564**

Directors' emoluments includes salary, bonuses awarded in the period, employer's pension contributions and employer's national insurance contributions. Full details of the Directors' remuneration including remuneration policies are available within section 6 of this report.

8. Personnel expenses

The average number of full time equivalents working at UKFI during the period was 12 (2016/17: 16). This figure includes Directors and long-term inward secondees. The aggregate payroll costs of these people were as follows:

	2017/18 £'000s	2016/17 £'000s
Wages and salaries	1,177	1,485
Social Security contributions	138	178
Defined contribution plans[1]	223	196
Contributions to other pension plans	68	85
Total	**1,606**	**1,944**

1. *These figures include a £202,000 (2017/18: £71,000, 2016/17: £131,000) settlement payment to HMRC to cover the over claiming of income tax relief on employees' pension contributions in prior years. See note 14.*

Contributions to other pension plans comprises amounts recharged from HM Treasury, the Department for 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.

Notes to the financial statements (continued)

9. Property, plant and equipment

UKFI had no property, plant and equipment on 1 April 2017 and did not acquire, or dispose, of any items of property plant and equipment in the reporting period ending 1 April 2018.

31-Mar-17	IT £'000s	2017/18 £'000s	2016/17 £'000s
Cost or valuation			
At 1 April 2016	41	6	47
Additions	-	-	-
Disposals	(41)	(6)	(47)
At 31 March 2017	-	-	-
Depreciation			
At 1 April 2016	(17)	(5)	(22)
Charged in year	(2)	-	(2)
Relating to disposals	19	5	24
At 31 March 2017	-	-	-
Carrying Value at 31 March 2017	-	-	-
Carrying Value at 1 April 2016	24	1	25

10. Trade receivables and other current assets

	Note	1-Apr-18 £'000s	31-Mar-18[1] £'000s	31-Mar-17 £'000s
Trade receivables due from related parties	19	-	3	397
Prepayments		-	102	17
Other receivables		-	-	1
Total		**-**	**105**	**415**

1. *Represents balances transferred to UKGI on 1 April 2018*

Notes to the financial statements (continued)

11. Cash and cash equivalents

	1-Apr-18 £'000s	31-Mar-18[1] £'000s	31-Mar-17 £'000s
Government banking service	-	942	2,685
Total	**-**	**942**	**2,685**

1. *Represents balances transferred to UKGI on 1 April 2018*

12. Called up share capital

	1-Apr-18	31-Mar-17
Authorised		
Equity: Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	1	1

13. Trade payables and other current liabilities

	Note	1-Apr-18 £'000s	31-Mar-18[1] £'000s	31-Mar-17 £'000s
Trade and other payables due to related parties	19	-	340	87
Trade payables due to non-related parties		-	4	6
Other payables due to non-related parties		-	87	371
Taxation and social security		-	101	60
Corporation tax		-	-	21
Total		**-**	**532**	**545**

1. *Represents balances transferred to UKGI on 1 April 2018*

Notes to the financial statements (continued)

14. Provisions

	Taxation and social security £'000s	Total £'000s
At 1 April 2017	131	131
Additional provisions	71	71
Amount utilised	(202)	(202)
Amount reversed	-	-
At 31 March 2018 and 1 April 2018	**-**	**-**

A provision was recognised in respect of a tax liability identified as due to HM Revenue and Customs (HMRC). This issue arose as a result of an inconsistent tax treatment being applied between UKFI's pension provider and payroll provider and resulted in UKFI's employees receiving more tax relief than they were entitled to. During the year the company agreed a settlement with HMRC in relation to this issue which has now been paid in full.

15. Operating leases

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

	31-Mar-18 £'000s	31-Mar-17 £'000s
Less than one year	-	123
Between two and five years	-	-
More than five years	-	-
Total	**-**	**123**

In the year £118,000 (2016/17: £170,000) was recognised as an operating lease expense. All operating lease expenses are in respect of UKFI's accommodation lease.

16. Dividends

UKFI has no intention of making a profit, and does not intend to declare a dividend at any point. No dividend was declared or paid during the year (2016/17: Nil).

Notes to the financial statements (continued)

17. Financial instruments

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's financial assets are: trade receivables due from related parties and other trade receivables. All are classified as 'loans and receivables' and denominated in pounds sterling (note 10).

UKFI's financial liabilities are: trade and other payables due to related parties, other trade payables, non-trade payables, taxation and social security and other payables. 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 13).

The carrying values of short-term financial assets and liabilities (at amortised cost) are not considered different from fair value.

(a) 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.

(b) 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; UKFI'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.

(c) 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 grant-in-aid.

18. Contingent liabilities

UKFI indemnifies 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)

19. Related parties

UKFI is a wholly owned subsidiary of UK Government Investments Limited (UKGI) which is registered in England and Wales and operates in the United Kingdom. UKFI's ultimate beneficial owner is HM Treasury which is also registered in England and Wales and operates in the United Kingdom. As more fully described in note 2(b), on 1 April 2018 all UKFI's operations, assets and liabilities transfered to UKGI. There were no other transactions with UKGI in the reporting period..

UK Asset Resolution Ltd is considered a related party as it is wholly owned by HM Treasury and Peter Norton, UKFI's Head of Banking and Capital Markets, is a non-executive director of B&B, NRAM and UKAR.

Although Royal Bank of Scotland and Lloyds Banking Group fall outside the resource accounting boundary for HM Treasury Group, due to the ownership of share capital by HM Treasury in the financial year, and UKFI's objectives described in Chapters 1, 2 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.

Trade receivables due from related parties

	1-Apr-18 £'000s	31-Mar-18[1] £'000s	31-Mar-17 £'000s
Lloyds Banking Group	-	-	20
Royal Bank of Scotland Group	-	3	119
UK Asset Resolution Ltd	-	-	258
Total	**-**	**3**	**397**

1. *Represents balances transferred to UKGI on 1 April 2018*

Trade and other payables due to related parties

	1-Apr-18 £'000s	31-Mar-18[1] £'000s	31-Mar-17 £'000s
HM Treasury	-	240	87
UK Asset Resolution Ltd	-	100	-
Total	**-**	**340**	**87**

1. *Represents balances transferred to UKGI on 1 April 2018*

Notes to the financial statements (continued)

Income received from related parties

	2017/18 £'000s	2016/17 £'000s
HM Treasury – provision of investment management services	-	718
Lloyds Banking Group – expenses for asset disposals	(9)	3,142
Royal Bank of Scotland Group – expenses for asset disposals	104	1
UK Asset Resolution Ltd – expenses for asset disposals	967	826
Total	**1,062**	**4,687**

Expenditure due to related parties

	2017/18 £'000s	2016/17 £'000s
HM Treasury	458	504
Royal Bank of Scotland Group	1	1
Total	**459**	**505**

20. Events after the reporting period

In June 2018, UK Government Investments Limited, which assumed responsibility for continuing UKFI's mandate on 1 April 2018, completed a sale of shares in Royal Bank of Scotland Group. This event has had no impact on these financial statements.

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