



**UK Financial Investments Ltd**

---

---

UK FINANCIAL INVESTMENTS LIMITED (UKFI)  
ANNUAL REPORT AND ACCOUNTS 2014/15

---



# UK Financial Investments Limited (UKFI) Annual Report and Accounts 2014/15

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

June 2015

Cm 9086



---

© UK Financial Investments Limited (2015)

The text of this document (this excludes, where present, the Royal Arms and all departmental and agency logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as UK Financial Investments Limited copyright and the document title specified. Where third-party material has been identified, permission from the respective copyright holder must be sought.

Any enquiries regarding this document should be sent to us at [enquiries@ukfi.co.uk](mailto:enquiries@ukfi.co.uk).

This document is also available from our website at  
<https://www.gov.uk/government/publications>

Print: ISBN 978-1-4741-2013-5

Web: ISBN 978-1-4741-2014-2

Printed in the UK by Brightside Print & Design Ltd  
on behalf of the Controller of Her Majesty's Stationery Office

ID 26051511      06/15

## UKFI CONTACTS

This document can be found on our website at: [www.ukfi.co.uk](http://www.ukfi.co.uk)

### **General enquiries should be addressed to:**

Enquiries  
UK Financial Investments Limited  
100 Parliament Street  
London SW1A 2BQ

Email: [enquiries@ukfi.co.uk](mailto:enquiries@ukfi.co.uk)  
Company number 6720891



# CONTENTS

Executive Chairman's foreword	6
01 Review of the past year and objectives for 2015/16	9
02 The Royal Bank of Scotland Group plc	16
03 Lloyds Banking Group plc	21
04 UK Asset Resolution Ltd	26
The UKFI Board	30
05 Directors' Report and Governance Statement	35
06 Directors' Remuneration Report	44
07 Independent Auditor's Report to the Shareholders of UK Financial Investments Limited	52
08 UKFI Financial Statements	55

## UKFI'S REMIT

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

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

UKFI's overarching objective is to manage these shareholdings commercially to create and protect value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government's ownership stakes in an orderly and active way over time within the context of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and acting in a way that promotes competition.

UKFI is a Companies Act Company with HM Treasury as its sole shareholder, and operates at arm's-length from Government. More detail on UKFI's role, remit and ownership approach is set out in our Framework Document and Investment Mandate with HM Treasury, which can be found at [www.ukfi.co.uk](http://www.ukfi.co.uk).



# EXECUTIVE CHAIRMAN'S FOREWORD



UKFI has made further progress with the execution of its mandate this year. We have continued our disposal programme in Lloyds through a trading plan and worked closely with RBS as the Board and management developed the next phase of the strategy to create a stronger and simpler bank which will protect and enhance long term value for shareholders. UKAR sold a significant portfolio of mortgages, realising £2.7bn, and we are working actively with them as they explore the potential for a further major disposal, in particular around Granite – a securitisation programme which holds around £13bn of mortgages.

During 2014, the UK economy continued its recovery, growing by 2.6 per cent. After a weak start, equity markets performed well for the first half of the year before geopolitical issues in Eastern Europe, sluggish European growth and a substantial fall in the oil price caused more volatility in the final three months of the year. European financial assets have performed strongly in 2015 following the European Central Bank's quantitative easing programme early in 2015, which has created a set of conditions where sellers of financial assets have a broader range of options than was the case a year ago.

In 2014 Lloyds announced its first statutory profit after tax and proposed its first dividend payment since 2008. In December 2014 UKFI announced a six month trading plan to dispose of shares in Lloyds in an orderly and measured way over time. On 1 June we announced that the trading plan would be extended and will now end no later than 31 December 2015. We informed the market that, from the period beginning on 17 December 2014 to 29 May 2015, approximately 4.2bn shares had been sold under the plan at an average price of more than 80p per share, reducing the Government's stake in Lloyds from around 25 per cent to less than 19 per cent. The Chancellor has said that he wants to return Lloyds to the private sector over the coming year, and that he will launch a retail share offer in the next 12 months. On 10 June, Lloyds provided a further update that the Government's shareholding had fallen below 18 per cent.

RBS continues to make progress on the strategy announced by Chief Executive Ross McEwan in February 2014. The rundown of RBS Capital Resolution (RCR) is a year ahead of plan and is expected to conclude by the end of 2015 at half the originally budgeted cost. RBS also completed a successful IPO and subsequent sale of Citizens which has reduced their holding to a little over 40 per cent. As part of its end of year results, RBS announced more details of its strategy to shrink its investment banking arm and focus the allocation of resources on its UK business. We support these steps, which will enable the company to focus on customers and markets where it has leading positions. On 10 June 2015 the Chancellor announced that he will begin to sell the Government's stake in RBS in the coming months. We continue to keep market conditions under review and assess options to execute sales of RBS shares.

UKAR has continued to make progress in its objective of winding down the mortgage books of both NRAM and Bradford & Bingley. In the year ended 31 March 2015, UKAR reported an underlying profit of £1.4bn, and total customer balances were reduced from £61.2bn to £52.7bn. Arrears levels continue to fall as a result of UKAR's proactive approach to arrears management coupled with the continued low interest environment. In October 2014 UKAR closed a sale of £2.7bn of mortgage assets, and in this financial period has repaid over £4.4bn to the Government. In March, UKAR announced that, following a strategic review, it would seek expressions of interest in respect of divestments which will include options around Granite, a securitisation vehicle originally established by Northern Rock in 2001. At the same time, UKAR also announced its intention to explore potential options for the divestment of its mortgage servicing activities.



Historic conduct issues continue to arise in the financial sector, affecting statutory profits and capital accretion. In our work with all three of our investee institutions UKFI is placing renewed emphasis on this area in view of its impact on earnings and capital growth.

In September 2014, Sir Philip Hampton announced that he would step down as Chairman of RBS. Sir Philip led the Board of RBS during a period of exceptional regulatory change, volatile economic and market conditions and significant strategic change at the bank. I would like to thank him for his enormous contribution to the creation of a stronger, safer bank since his appointment in 2009. In February 2015 RBS announced the appointment of Sir Howard Davies as the new Chairman. Sir Howard will join the Board at the end of June and assume the role of Chairman from September 2015. I look forward to working with Sir Howard as he oversees the execution of RBS's revised strategy.

At the time of the publication of the 2013/14 annual report and accounts UKFI had begun the process of recruiting new non-executive directors to refresh the membership of the Board. In July 2014 Marshall Bailey, Jitesh Gadhia and Jane Guyett were appointed as non-executive directors, bringing with them a wealth of banking and financial markets experience. Michael Kirkwood and Peter Gibbs stepped down from the Board having served as non-executive directors since the establishment of UKFI in 2009. My predecessors and I are very grateful to them for their wise counsel and dedication as members of our Board.

In May, the Government announced that UKFI would become a subsidiary of a new government-owned company, UK Government Investments. The Shareholder Executive will become a division of UK Government Investments. UKFI will continue to operate under its current Framework Document and Investment Mandate, and as such, UKFI will continue to focus on securing value for the taxpayer. The Company's activities will continue to be governed by its Board, whose remit and membership will also remain unchanged. I am looking forward to working more closely with the Shareholder Executive in the coming year.

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

**James Leigh-Pemberton**  
Executive Chairman

16 June 2015



# ANNUAL REPORT AND ACCOUNTS 2014/15

## 01

Review of the past year and  
objectives for 2015/16





## Introduction

This Chapter provides an overview of UKFI's activities, with reference to UKFI's objectives for 2014/15 including:

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

More detailed information on the financial performance of each of the investee companies over the past year is provided in Chapters 2 to 4.

Chapters 5 and 6 provide further information on UKFI's internal governance and remuneration policies. The UKFI Board, supported by its two sub-committees, takes all major strategic decisions for the Company. The directors provide the Company with the appropriate experience, expertise and independence to manage the Government's investments on a commercial basis.

Chapter 7 provides the independent auditor's report and UKFI's Financial Statements for 2014/15. UKFI has produced an unqualified set of accounts for the six years of its operation. Our direct administration expenditure for the year under review was £2.4m, of which staff costs were £1.8m.

## UKFI's role as an active and engaged shareholder

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

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

For all the investee companies, our engagement is focused on ensuring that their business strategies, performance, governance and risk management processes are aligned to deliver sustainable value for the taxpayer. This approach is consistent with the best practice set out in the Financial Reporting Council's Stewardship Code for Institutional Investors, which aims to enhance the quality of engagement between



shareholders and companies. Further details of how we act in accordance with this Code are available on our website.

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

### Engagement with UKAR

In November 2014 David Lunn joined UKFI as Head of Wholly Owned and was appointed to the Board of UKAR as a non-executive director. He replaces Christopher Fox, who stepped down from his role at UKFI in the same month. In July 2014 Ian Hares joined the UKAR Board as Finance & Investment director. Keith Morgan remains as a UKFI nominated non-executive director on the UKAR Board.

During the year, UKFI has engaged closely with UKAR on developing and executing a number of projects to progress its objectives of winding down its balance sheet, including the sale of a £2.7bn portfolio of performing residential mortgage loans in October 2014 and announcing that it would seek expressions of interest in respect of divestments which will include options around Granite. At the same time, UKAR also announced its intention to explore potential options for the divestment of its mortgage servicing activities.

UKFI also continued to engage closely with UKAR on the remediation of Consumer Credit Act regulated loans and on the legal proceedings in relation to unsecured loans above the regulated cap. This is to ensure that all actions taken are consistent with UKAR's Treating Customers Fairly obligations, whilst minimising costs to the taxpayer.

### Engagement with RBS and Lloyds

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

The rundown of RCR, RBS's internal 'bad bank', is a year ahead of plan and is expected to conclude by the end of 2015 at half the originally budgeted cost. In September 2014, RBS launched the initial public offering of Citizens, its US retail bank, as part of its strategy to fully exit its holding by the end of 2016. Having completed a further partial sale in March, RBS's ownership of the bank is now 40.8 per cent. March 2015 also saw the announcement of an agreement by RBS to sell Coutts International, its internationally managed Private Banking and Wealth Management business, to Union Bancaire Privée.

In February 2015, RBS announced more details of its strategy for the Corporate & Institutional Banking (CIB) business. The strategy aims to improve medium-term returns and refocus the division on UK and Western European customers. Further details of the strategy are available in the RBS Annual Report for 2014. In keeping with our mandate, the focus of UKFI's engagement with RBS in relation to the CIB strategy has been the development of long term sustainable value for the taxpayer.

At their 2014 results, Lloyds announced its first statutory profit after tax (of £1.5bn), and proposed (and subsequently paid) its first dividend payment, since 2008. UKFI's engagement with Lloyds has continued to focus on the progress of management's longer term strategy for the bank. Following the initial public



offering in June 2014, Lloyds announced in March that it had agreed to sell its remaining stake in TSB Banking Group plc to Banco de Sabadell. This is a further step for Lloyds in meeting the conditions set by the European Commission.

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

Over this financial year UKFI has voted on behalf of the Government on all resolutions put to shareholders. We inform the relevant bank in advance of our voting intentions and rationale, and we disclose on our website how we have voted. Many of these votes follow consultations by the boards with us and other shareholders in relation to individual resolutions.

There have been a number of changes to the boards of both banks. While it is for the boards of Lloyds and RBS to make decisions on directors and senior appointments, as a large shareholder we are regularly consulted, and always seek to ensure that suitably qualified individuals are appointed.

At RBS, non-executive director Morten Friis joined the Board in April 2014. Philip Scott stepped down from the Board in October 2014. Sir Howard Davies will join the Board in June 2015 and assume the role of Chairman from 1 September 2015, coinciding with Sir Philip Hampton's departure. At Lloyds, Simon Henry and Nick Prettejohn joined the Board as non-executive directors in June 2014. Alan Dickinson was appointed as a non-executive director in September 2014. In the same month, non-executive director David Roberts stepped down from the Board.

## Remuneration

Remuneration in the banking sector remains a high-profile issue. UKFI's Framework Document states that we should not intervene in relation to individual remuneration decisions within Lloyds and RBS, except through our votes at the Annual General Meeting. As the largest shareholder in Lloyds and RBS, UKFI worked closely with the boards again this year to ensure they exercised appropriate judgement in relation to their approach to directors' remuneration and that remuneration awards continue to align with the interests of shareholders and are appropriately focused on long-term performance. While both banks need to be sensitive to the wider economic and political environment in which they operate, it is also essential that they are able to offer remuneration packages that are adequate to attract and retain staff with the talent and experience needed to run their businesses effectively and create and sustain value for the taxpayer.

Following a process of thorough engagement with the Lloyds and RBS remuneration committees, UKFI concluded that both committees had exercised appropriate judgement in relation to their approach to total variable remuneration in 2014, both in relation to financial performance and the retention of key employees.

RBS announced a bonus pool for 2014 that was more than 20 per cent lower than the pool awarded in 2013, and bonuses also fell on a per head basis. Lloyds' 2014 bonus pool also fell compared to the bonus pool awarded in 2013. Both bonus pools included downward adjustments to account for fines incurred during the year and other legacy conduct issues. Cash bonuses at both banks continued to be limited to £2,000.



For the 2014 performance year, no executive director or member of the executive committee at RBS received an annual bonus. RBS CEO, Ross McEwan, also chose to forgo the proceeds from his 2015 role-based allowance, since he did not want this issue to be a distraction from his task of implementing the bank's strategy. At Lloyds, the Chief Executive, António Horta-Osório, was awarded an annual bonus which, in line with last year, was subject to certain conditions including full disposal of the Government's shares in Lloyds or the price performance of those shares. Full details of these conditions can be found in the Lloyds Banking Group Annual Report for 2014. His long-term incentive plan awarded in 2012 also vested, all the required performance targets having been met.

## Disposals strategy

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

### UKAR

At 31 March 2015, UKAR owed the Government £34.6bn, an amount the company expects to repay in full. Total payments from UKAR to the taxpayer including repayments, interest, fees and corporation tax totalled £4.4bn in the last year, down from £5.6bn in the period 2013/14 mainly because cash is being accumulated to repay a £1.0bn covered bond maturity in 2015.

In October 2014, UKAR sold a portfolio of performing residential mortgage loans for a sale price of £2.7bn. The proceeds included a c.£55m premium over the book value as at end May 2014. UKFI assessed that the sale represented good value for money for the taxpayer, as well as contributing to the orderly run-down of the mortgage book.

Following this sale, UKAR and UKFI appointed advisors (Credit Suisse and Moelis & Company respectively) to undertake a programme of work to assess opportunities for further sales of UKAR assets and, separately, the potential for divesting its operating platform. In March 2015, UKAR announced it would seek expressions of interest in respect of divestments, including options around Granite, a securitisation vehicle originally established by Northern Rock in 2001<sup>1</sup>. At the same time, UKAR also announced that it will explore potential options for the divestment of its mortgage servicing activities.

UKFI wrote to the Chancellor at the time of the 2015 Budget setting out the commercial rationale for the sale and UKFI's assessment that, subject to market conditions remaining favourable, a significant sale of UKAR's mortgage assets is likely to be both achievable and value for money.

### Lloyds and RBS disposals

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

<sup>1</sup> At 31 January 2015, Granite held £13.22bn of mortgage loans funded by £9.05bn of securities.



plan, Lloyds' share price performance, detailed assessment of fair value and wider market conditions. The trading plan has since been extended and will now end no later than 31 December 2015.

On 1 June we informed the market that, from the period beginning on 17 December 2014 to 29 May 2015, approximately 4.2bn shares had been sold under the plan at an average price of more than 80p per share, reducing the Government's stake in Lloyds from around 25 per cent to less than 19 per cent. On 10 June, Lloyds provided a further update that the Government's shareholding had fallen below 18 per cent. (As at 31 March 2015 the Government had sold 2.2bn shares and held 21.8 per cent of total issued share capital.)

At Budget on 18 March the Chancellor announced his intention to sell up to £9bn of Lloyds shares during 2015/16. UKFI advised the Chancellor that the sale would be achievable while delivering value for money for the taxpayer, subject to market conditions and sufficient flexibility on the appropriate time and method of disposal. The Chancellor has since said that he wants to return Lloyds to the private sector over the coming year, and that he will launch a retail share offer within 12 months. Details on future Lloyds share sales will be provided in due course. Further details about the sale of Lloyds shares and the Government's remaining holding in Lloyds are included in Chapter 3.

In April 2014, the Government announced that it had reached an agreement with RBS to retire the Dividend Access Share (DAS) in return for an initial dividend of £320m and a further dividend of at least £1.18bn (see Chapter 2 for details). The process of valuing and negotiating the sale of the DAS was led by HM Treasury, with UKFI providing technical expertise.

As RBS makes progress with the implementation of its strategy to de-risk and restructure its business, the RBS investment case is becoming clearer. On 10 June 2015 the Chancellor announced that he will begin to sell the Government's stake in RBS in the coming months. We continue to keep market conditions under review and assess options to execute sales of RBS shares.

### Disposal of Tier 1 Notes issued by Virgin Money

In July 2014, UKFI completed the sale of HM Treasury's holding of Tier 1 Notes. The Notes were issued by Virgin Money to HM Treasury in January 2012 at a par value of £150m as part of the consideration for the sale of Northern Rock plc.

UKFI and its financial advisor conducted a competitive process among a number of potential purchasers, as a result of which Virgin Money was selected as the winning bidder. The Notes were sold at 103 per cent of their par value, realising proceeds of £154.5m.

The disposal of the Notes, together with a further payment of £50m received from Virgin Money on the successful completion of its IPO in November 2014, brought the total cash proceeds from the sale of Northern Rock plc to £1.025bn.



## UKFI's 2015/16 objectives

The key objectives which UKFI has agreed with HM Treasury for the 2015/16 reporting year are set out below.

### Lloyds and RBS

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

### UKAR

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

### All investee companies

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



ANNUAL REPORT AND ACCOUNTS  
2014/15

02

The Royal Bank of Scotland Group plc



As at the end of March 2015, the Government held a total of four billion ordinary shares in RBS, equivalent to 62 per cent of RBS's voting share capital. In addition, the Government held 51 bn B shares, which convert into ordinary shares in the ratio of 10:1 as a result of the share consolidation exercise in June 2012. In total, the Government's holding in RBS was equivalent to 79 per cent economic ownership. The 31 March 2015 share price of 340p implied a current market value of the Government's shareholding of £30.8bn.

## 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, in the US through the Group's subsidiary, Citizens, and internationally.

## Company performance

The table below provides an overview of the key financial results for RBS from 2012 to 2014. Full details of the results, including for the first quarter of 2015, can be found on the Company's website: [www.investors.rbs.com/results\\_presentations](http://www.investors.rbs.com/results_presentations).

**Table 2.1: Key financial performance metrics**

	2014	2013	2012
<b>Risk measures (Group)</b>			
Fully loaded Basel III common equity tier 1 ratio	11.2%	8.6%	7.7%
Loan to deposit ratio	95%	94%	100%
Short-term wholesale funding (<1 year)	£28bn	£32bn	£42bn
Liquidity portfolio <sup>1</sup>	£151bn	£146bn	£147bn
Leverage ratio <sup>2</sup>	4.2%	3.4%	3.1%
<b>Profitability Metrics (Core)</b>			
Return on equity <sup>3</sup>	13% <sup>4,5</sup>	4.6% <sup>6</sup>	8.9% <sup>6</sup>
Cost to income ratio <sup>3</sup>	63% <sup>4</sup>	64%	59%

(All figures from RBS statutory accounts and results presentations)

Notes:

1. Eligible assets held for contingent liquidity purposes including cash, government-issued securities and other eligible securities with central banks.
2. 2014 and 2013 metrics based on end-point CRR Tier 1 capital and revised Basel III leverage ratio framework.
3. Excluding restructuring and conduct charges.
4. 2014 represents go-forward business only pro forma for revised CIB strategy.
5. Segmental adjusted ROE calculated using a 25% notional tax rate and equity equivalent to 12% of average segmental RWAs.
6. Based on RBS 2013 disclosure regarding core bank.





Commenting on the Group's performance in 2014, Ross McEwan, CEO, said:

*"Our strategy sets out to deliver one very simple aim. To make this a great bank for our customers: a bank that will earn back their trust, and in turn win more of their business. It's a strategy that provides the fundamental building blocks to make RBS an attractive investment, a great place to work for our people, and a UK focused bank that the country can be proud of.*

*Last year we identified the areas we needed to improve in order to deliver our strategy cost, complexity, capital, and trust from our customers. The energy and resolve of our people has resulted in significant progress on these, and we have delivered on the goals we set for 2014.*

- We said we would reduce waste and inefficiency and reorganise ourselves around the needs of our customers, moving from seven operating divisions to three customer businesses. This reorganisation is complete and we have removed £1.1 billion of cost from the business.*
- We outlined a programme to rationalise, simplify and bolster our operating systems and processes to make them less complex, more resilient and easier to use. Significant progress has been made in this area with our key services available to customers 99.96% of the time during 2014.*
- We set out a plan to place the bank on a sure capital footing targeting a CET1 ratio of 11% by the end of 2015, and 12% or greater by the end of 2016, so as to remove any doubts about our fundamental strength and stability. This capital plan is on track and we have reached our 2015 target one year ahead of schedule. This improvement was driven by a 52% reduction in riskweighted assets in RCR.*
- We said we would undertake the biggest bank initial public offering in US history. Citizens Financial Group was successfully floated on the New York Stock Exchange. At the same time we substantially completed the orderly run-down and closure of our US asset-backed product business, removing £15 billion of risk-weighted assets from our balance sheet.*
- We made a commitment to fairness with our customers. We said that RBS would no longer compete with other banks in a number of areas and we would use less technical language that our customers find easier to understand. We stopped offering zero per cent balance transfers on credit cards that trap customers in spirals of ever increasing debt, we ended teaser rates that penalise existing customers, and we now explain all of our fees and charges on one side of A4 paper for both our personal and business customers.*

*As well as being a stronger, simpler and fairer bank, I said that we would also be a very different bank. No longer chasing global market share, but instead focusing squarely on our core strength, namely our home market places in the UK and the Republic of Ireland (RoI).*

*Our 2014 performance shows a strategy that is working. It demonstrates the forensic approach we have taken to evaluate our businesses against the returns they provide to shareholders. The strong execution against the targets we set now gives us a platform to go further, faster."*



## 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 £43,722m, 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 fees received relating to the Contingent Capital Facility the net cost is £39,938m, equivalent to an average of 441p per share.

**Table 2.2: HM Treasury shareholdings in RBS**

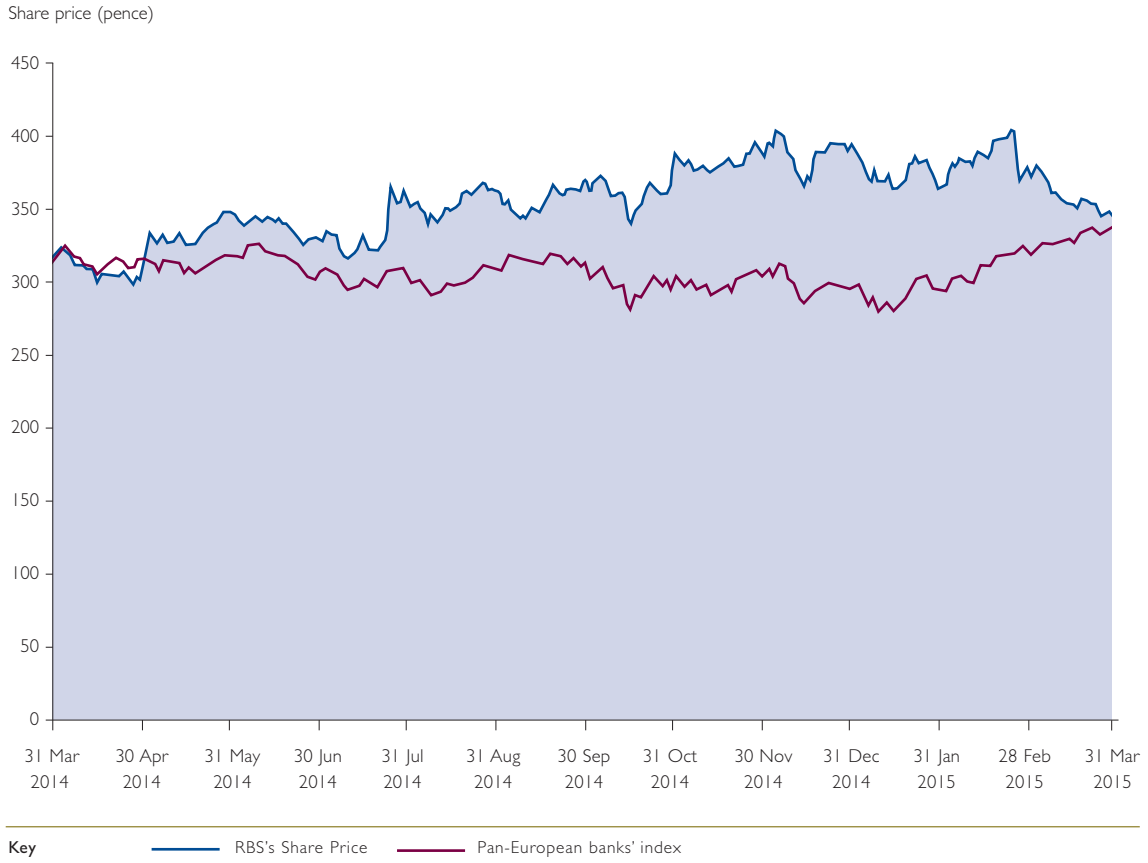
HM Treasury shareholdings in RBS		Shares <sup>1</sup>	Total investment	Investment per share	Value 31 March <sup>2</sup>
		m	£m	p	£m
Initial recapitalisation	December 2008	2,285	14,969	655	7,770
Preference share conversion <sup>3</sup>	April 2009	1,679	5,058	318	5,709
APS B shares <sup>4</sup>	December 2009	5,100 <sup>5</sup>	25,500	500	17,340
<b>Total investment</b>		<b>9,064</b>	<b>45,527</b>	<b>502 (avg)</b>	<b>30,819</b>
Initial DAS Retirement Dividend <sup>6</sup>			(320)		
Final DAS Retirement Dividend <sup>7</sup>			(1,180)		
<b>Total investment net of Dividends</b>		<b>9,064</b>	<b>44,027</b>	<b>486 (avg)</b>	<b>-</b>
Fees Received <sup>8</sup>			(305)		
<b>Total investment net of fees and dividends</b>		<b>9,064</b>	<b>43,722</b>	<b>482 (avg)</b>	<b>-</b>
APS exit fee <sup>9</sup>			(2,504)		
Contingent Capital Facility Fees <sup>10</sup>			(1,280)		
<b>Total investment net of all fees and dividends received</b>			<b>39,938</b>	<b>441 (avg)</b>	<b>-</b>

Notes:

- 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.
- Based on RBS share price of 340.0p as at 31 March 2015.
- Total investment includes accrued dividends and redemption premiums received of around £270m.
- Value as at 31st March excludes the Dividend Access Share.
- 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.
- In April 2014, RBS and HM Treasury reached an agreement to provide for the future retirement of the DAS. Following approval of the agreement by the independent shareholders in RBS, RBS made an initial DAS retirement payment to HM Treasury of £320m in 2014.
- Following the initial DAS retirement payment, a further £1,180m will be payable to HM Treasury with the timing of the payment at the discretion of the Directors of RBS. Any unpaid portion of the DAS Retirement Dividend Amount will be subject to an increase of (a) five per cent per annum on any part that has not been paid before 1 January 2016 and (b) 10 per cent per annum on any part of the balance that has not been paid before 1 January 2021.
- 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.
- In Q4 2012, RBS reached the full minimum payment of £2,504m for the implicit capital support provided by the APS since 2009.
- In Q4 2013, RBS cancelled its Contingent Capital Facility with HMT following approval from the PRA. RBS paid a total of £1,280m of fees to HMT during the life of the facility, exiting it a year before it was due to expire.



Figure 2.1: RBS's share price performance –





ANNUAL REPORT AND ACCOUNTS  
2014/15

03

Lloyds Banking Group plc



## Summary of Government shareholding

As at the end of March 2015, the Government held a total of 15.6 billion ordinary shares in Lloyds, equivalent to 21.8 per cent of the total issued share capital. The 31 March 2015 share price of 77.54p implied a market value of the Government's shareholding of £12,174m (including announced but not paid dividends).

## 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 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, 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 2012 to 2014. Full details of the results, including for the first quarter of 2015, can be found on the Company's website at [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com).

**Table 3.1: Key financial performance metrics**

	2014	2013	2012
<b>Risk measures</b>			
Fully loaded Basel III common equity tier I ratio	12.8%	10.3% <sup>1</sup>	8.1%
Loan to deposit ratio	107%	113%	121%
Short-term wholesale funding (<1 year)	£41bn	£44bn	£51bn
Liquidity portfolio	£209bn	£195bn	£205bn
Leverage ratio <sup>2</sup>	4.9%	3.8%	n/a
<b>Value drivers</b>			
Statutory Return on Required Equity <sup>3</sup>	3.0%	(1.3%)	n/a
Cost: to income ratio	51%	53%	55%

(All figures from statutory accounts)

Notes:

1. Pro Forma ratio as disclosed by Lloyds including the benefit of the sales of Heidelberger Leben, Scottish Widows Investment Partnership and the Group's 50% shareholding in Sainsbury's Bank.
2. Calculated in accordance with the January 2014 revised Basel III leverage ratio framework.
3. Statutory return on required equity is calculated as the statutory profit after tax less the post-tax profit attributable to other equity holders divided by the average required equity in the year. An adjustment is also made to reflect the notional earnings on any excess or shortfall in equity.



Commenting on the Group's performance over the course of 2014, António Horta-Osório, Chief Executive Officer, said:

*"Our strong performance in 2014 marks the culmination of three years of delivery against our strategic plan that has transformed the business for the benefit of our stakeholders. For our shareholders we have delivered a significant improvement in financial performance, while improving the risk profile of the bank and strengthening the balance sheet.*

*We have strengthened underlying performance from a loss of £0.9 billion in 2010 to a profit of £7.8 billion in 2014, driven by a combination of lower impairment charges and a reduction in the Group's cost base. While our statutory result has also increased significantly over this period, our pre-tax profit of £1.8 billion in 2014 continued to be affected by PPI and other regulatory provisions as well as costs associated with TSB, the Simplification programme and the ECN exchange."*

### Shareholding in Lloyds

The Government's investment in Lloyds 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 the fees received from Lloyds, including £2,500m in relation to the implicit capital support provided by the APS in 2009, the net cost is £17,316m, equivalent to 62.7p per ordinary share.

**Table 3.2: HM Treasury shareholdings in Lloyds**

HM Treasury shareholdings in Lloyds Banking Group		Shares	Total investment	Investment per share
		m	£m	p
Initial recapitalisation <sup>1</sup>	January 2009	7,277	12,957	182.50
Preference share conversion <sup>2</sup>	June 2009	4,521	1,506	38.43
Rights issue	December 2009	15,810	5,850	37.0
<b>Total investment</b>		<b>27,609</b>	<b>20,313</b>	<b>73.6 (avg)</b>
Announced but not paid Dividends <sup>3</sup>			(116)	
<b>Total investment net of Dividends</b>		<b>27,609</b>	<b>20,197</b>	<b>73.2 (avg)</b>
Fees received <sup>4</sup>			(381)	
<b>Total investment net of Dividends and fees</b>		<b>27,609</b>	<b>19,816</b>	<b>71.8 (avg)</b>
APS exit fee <sup>5</sup>			(2,500)	
<b>Total investment net of all fees</b>			<b>17,316</b>	<b>62.7 (avg)</b>
Total disposals to date (see Box 3.1 below)		(12,057)	(9,149) <sup>6</sup>	

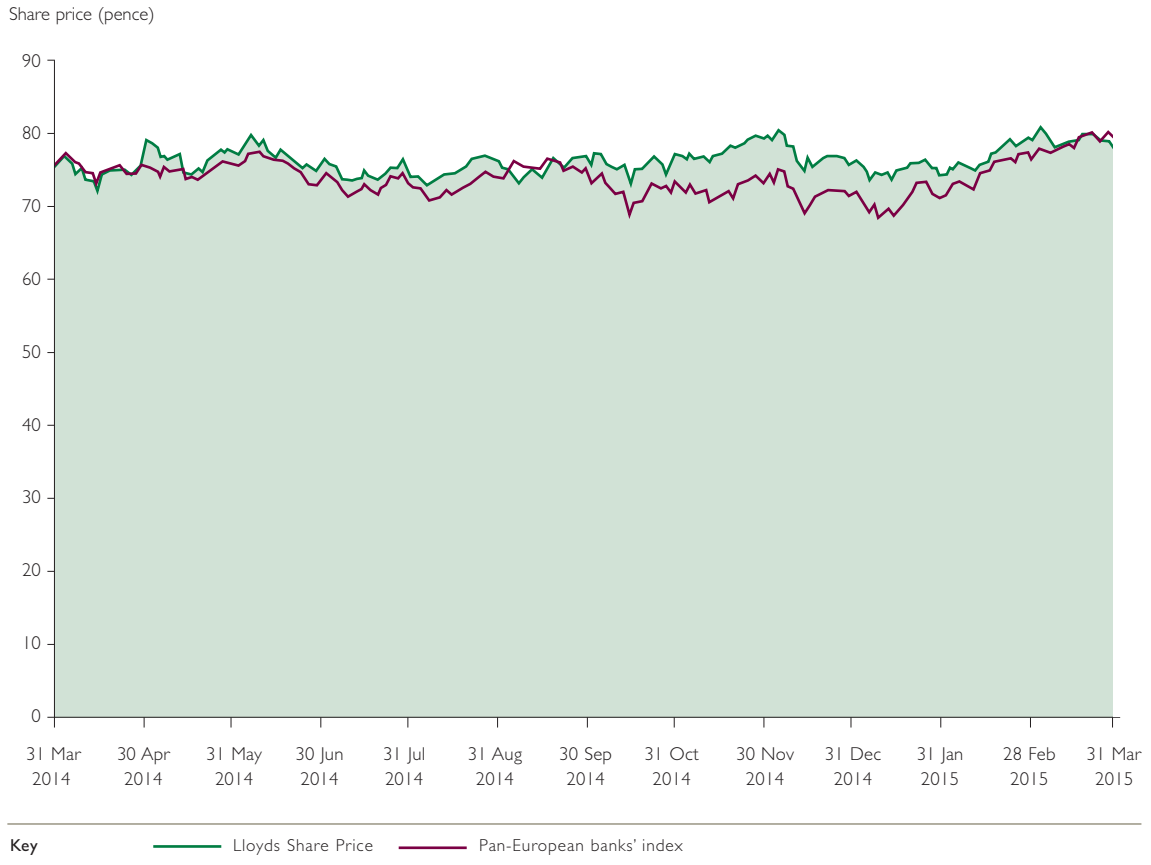
(All figures from statutory accounts)

Notes:

1. Includes Lloyds' capitalisation issue on 11 May 2009 (177 million shares).
2. Investment adjusted to include accrued dividends and redemption premiums of around £230m.
3. Dividend of 0.75p per share announced with full year 2014 results but not paid by 31 March 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.
6. Total proceeds raised to 31 March 2015.



Figure 3.1: Lloyds share price performance





### BOX 3.1: DISPOSALS OF SHARES IN LLOYDS

As at the end of financial year 2013, the Government held 24.9 per cent of the issued share capital as shown in the table below.

During the course of this financial year UKFI implemented a trading plan which was the third market operation employed by UKFI to further reduce the Government's holding in Lloyds.

The intention to sell shares through a trading plan was announced on 17 December 2014. The objective of this trading plan was to sell shares in a measured and orderly way for a period that lasted until no later than 30 June 2015.

From 17 December 2014 until 31 March 2015, a total of 2.2bn shares were sold at an average price of 78.54p per share. Total proceeds were £1,743m. This reduced the Government's shareholding from 24.9 per cent to 21.8 per cent. On 1 June the trading plan was extended and will now end no later than 31 December 2015. We informed the market that, from the period beginning on 17 December 2014 to 29 May 2015, approximately 4.2bn shares had been sold under the plan at an average price of more than 80p per share, reducing the Government's shareholding to less than 19 per cent. On 10 June, Lloyds provided a further update that the Government's shareholding had fallen below 18 per cent.

Summary of disposals in Lloyds:						
Method of disposal	Date	Size of disposal		Price achieved per share	Total proceeds achieved	Residual Government shareholding
		Shares (m)	% total issued share capital	GBP	£m	
Institutional Accelerated Bookbuild	September 2013	4,282	6.00%	75.0p	3,212	32.7%
Institutional Accelerated Bookbuild	March 2014	5,555	7.78%	75.5p	4,194	24.9%
Trading Plan	17 December 2014 to 31 March 2015	2,219	3.11%	78.5p	1,743	21.8%

Note: From 17 December 2014 to 29 May 2015, approximately 4.2bn shares had been sold under the plan or c.6% of total issued share capital. The average price achieved per share was over 80p with total proceeds of over £3.5bn. The Government's residual shareholding was under 19%. On 10 June, Lloyds provided a further update that the Government's shareholding had fallen below 18%.





# ANNUAL REPORT AND ACCOUNTS 2014/15

# 04

## UK Asset Resolution Ltd



## Summary of Government shareholding

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

## Company overview

On 1 October 2010 UKFI announced the establishment of UKAR as the single holding company to manage, on an integrated basis, the closed mortgage books of both NRAM plc and Bradford & Bingley plc (B&B).

Following the split of Northern Rock on 1 January 2010, NRAM holds and services the closed mortgage book of the original Northern Rock. As of 31 March 2015, total assets of NRAM were £34.6bn, of which £25.4bn were loans to customers.

Bradford & Bingley was brought into public ownership by way of a Transfer Order on 29 September 2008. The Transfer Order also facilitated the sale of the UK and Isle of Man retail deposit business to Abbey National plc, part of the Santander Group, including all of Bradford & Bingley's retail deposit accounts and its branch network. As of 31 March 2015, total assets of Bradford & Bingley were £31.6bn, of which £27.3bn were loans to customers.

The ongoing focus of these businesses is an orderly run-down of their closed mortgage books and the repayment of Government funds. Neither of the companies holds deposits or offers additional mortgage lending – EU State aid constraints prevent the companies from taking on new business.

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 will enhance future repayment of government loans.

In addition, on 8 October 2013, UKAR Corporate Services became responsible for the day-to-day administration of the Government's Help to Buy mortgage guarantee scheme on behalf of HM Treasury.

The year ending 31 March 2015 is the fifth year for UKAR in which it produced consolidated results for the group.

At 31 March 2015 UKAR owed the Government £34.6bn, an amount which the Company expects to repay in full.



## Company performance

Table 4.1: UKAR key financials<sup>1</sup>

£m	2014/15	2013/14 <sup>2</sup>	2013/14 <sup>3</sup>
Underlying net operating income	1,408.3	1,486.3	1,846.9
Operating expenses	(174.2) <sup>5</sup>	(188.0) <sup>6</sup>	(244.5) <sup>7</sup>
Loan impairment provision release/ (charge)	150.6	(46.6)	(95.1)
Underlying profit/(loss) before tax	1,398.1	1,259.1	1,523.2
Statutory profit/(loss) for the year	972.3	1,113.0	1,374.3
Loans from HM Treasury (year end) <sup>4</sup>	34,590.0	38,307.3	38,307.3
Shareholder funds (year end)	7,053.1	6,144.4	6,144.4

Notes:

1. All figures from UK Asset Resolution Ltd Annual Report & Accounts 12 month period to March 2015.
2. 12-month period from 1 April 2013 to 31 March 2014.
3. 15-month period from 1 January 2013 to 31 March 2014.
4. Figures exclude accrued interest. Loans from HM Treasury at 31 March 2015 comprise: £13.64bn HM Treasury Loan to NRAM, £18.42bn B&B Statutory Debt to HM Treasury (of which £15.65bn is owed to the Financial Services Compensation Scheme) and £2.54bn HM Treasury Working Capital Facility to B&B.
5. Excluding UKARcs costs of £3.0m.
6. Excluding UKARcs costs of £1.8m.
7. Excluding UKARcs costs of £1.8m.

The underlying profit of the combined UKAR businesses increased from £1,259.1m in 2013/14 to £1,398.1m in 2014/15. Total payments to the taxpayer including repayments, interest, fees and corporation tax decreased from £5.6bn in 2013/14 to £4.4bn in 2014/15 mainly because cash is being accumulated to repay a £1.0bn covered bond maturity in 2015.

The number of customers in arrears by three months or more reduced from 15,483 at March 2014 to 11,976 at March 2015 as a direct consequence of proactive arrears management coupled with the continued benign interest environment in 2014/15. Impairment on loans to UKAR customers for the year to March 2015 was a credit of £150.6m, an improvement of £197.2m from the prior year charge of £46.6m. UKAR reduced customer balances from £61.2bn at March 2014 to £52.7bn at March 2015 which enabled the company to repay £3.7bn of government loans. Ongoing costs are being well controlled with operating expenses decreasing from £188.0m in 2013/14 to £174.2m in 2014/15.

In July 2013 UKAR published Deloitte's summary report into the issues found within a segment of NRAM Consumer Credit Act (CCA) regulated loans. UKAR has fully accepted and implemented all of Deloitte's recommendations. Subsequently, the UKAR Board initiated a test case which was heard in November 2014, to investigate whether or not similar CCA remediation would be required on unsecured accounts over the CCA regulated cap. The presiding Judge found against NRAM. NRAM sought leave to appeal and were granted an appeal case which was heard on 27 and 28 of April. NRAM are awaiting the outcome of the appeal case.

In January 2015 UKAR tendered for the remainder of NRAM's and the majority of B&B's remaining subordinated debt. This transaction represented value for money for the taxpayer and further reduced UKAR's balance sheet.



In October 2014 UKAR sold a £2.7bn portfolio of performing residential mortgage assets, the proceeds of which contributed to a further reduction in public sector net debt.

Following this sale, UKAR and UKFI appointed advisors (Credit Suisse and Moelis & Company respectively) to undertake a programme of work to assess opportunities for further sales of UKAR assets and, separately, the potential for divesting its operating platform. In March 2015, UKAR announced it would seek expressions of interest in respect of divestments, including options around Granite, a securitisation vehicle originally established by Northern Rock in 2001<sup>1</sup>. At the same time, UKAR also announced that it will explore potential options for the divestment of its mortgage servicing activities.

UKFI wrote to the Chancellor at the time of the 2015 Budget setting out the commercial rationale for the sale and UKFI's assessment that, subject to market conditions remaining favourable, a significant sale of UKAR's mortgage assets is likely to be both achievable and value for money.

<sup>1</sup> At 31 January 2015, Granite held £13.22bn of mortgage loans funded by £9.05bn of securities.



# THE UKFI BOARD



### **James Leigh-Pemberton – Executive Chairman**

James joined UK Financial Investments in October 2013 as Chief Executive. At the beginning of January 2014 James was appointed to the new role of Executive Chairman.

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.



### **Marshall Bailey – Non-Executive Director**

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

Marshall is currently Global President of ACI Financial Markets Association, facilitating education and endorsement of ethical conduct in wholesale financial markets, and is a non-executive director at CIBC World Markets plc in London.

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



**Kirstin Baker – Non-Executive Director**

Kirstin was appointed as HM Treasury's Finance and Commercial Director in January 2013. In this role she oversees the Treasury's finances and Corporate Services and is a member of the Treasury Board.

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

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



**Jitesh Gadhia – Non-Executive Director**

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

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



### **Jane Guyett – Non-Executive Director**

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

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

Jane holds a degree in Economics.



### **Philip Remnant – Senior Non-Executive Director**

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

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

He was appointed a CBE in 2011.





### **Lucinda Riches – Non-Executive Director**

Lucinda is a non-executive director of the Diverse Income Trust plc (appointed 2011), the British Standards Institution (appointed Advisor in 2011 and non-executive 2012), Graphite Enterprise Trust Plc (appointed 2011) and CRH plc (appointed March 2015). Since 2012 she has been a non-executive member of the Partnership Board of King & Wood Mallesons LLP (formerly SJ Berwin LLP). Lucinda is also a Trustee of Sue Ryder (since 2008).

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.



# ANNUAL REPORT AND ACCOUNTS 2014/15

## 05

### Directors' Report and Governance Statement



## UKFI Board

The UKFI Board takes all major strategic decisions for the Company. The principal activity of the Company is to manage the Government's investments in financial institutions commercially to protect and create value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government's investments in an orderly and active way over time, paying due regard to the maintenance of financial stability and acting in a way that promotes competition. The company has a Framework Document and Investment Mandate with HM Treasury appropriate for an arm's-length body, both of which were updated in October 2014. These set out the key parameters for how UKFI will conduct its business, including a clear mandate to manage the investments commercially.

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

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

Former Board members	Current position	Committee membership
Michael Kirkwood (18/01/2009 – 12/07/2014)	Independent Non-Executive	N, R (Chair), A
Peter Gibbs (18/01/2009 – 12/07/2014)	Independent Non-Executive	N, R, A

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

In the first quarter of 2014/15 UKFI undertook a Board refresh exercise which was managed in-house and followed the Office of the Commissioner for Public Appointments (OCPA) guidance. Three new directors were appointed to the Board following Michael Kirkwood and Peter Gibbs' decision to step down after five years of service.

During the year the terms of appointment for Lucinda Riches, Philip Remnant, Kirstin Baker and James Leigh-Pemberton expired, and the directors were reappointed until 2017.

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



The Board meets a minimum of nine times a year and on an ad-hoc basis as required. The Board met 11 times in person during this reporting period; additional discussions were held as required by telephone during the year.

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

The Chairman considers the effectiveness of the Board on a regular basis, and also reviews compliance with the Corporate Governance Code. UKFI has complied with all relevant provisions of the Code except for: (1) having an Executive Chairman, which was agreed by the Board and HM Treasury to be appropriate given the size of the company, the nature of its business, and the level of Board oversight; and (2) not having a Nominations Committee. The Nominations Committee was formally disbanded in September 2014 following the requirement for UKFI to follow OCPA guidance and processes when recruiting Board members. This requirement superseded the role of the Nominations Committee. In order to ensure adequate oversight of succession planning, the Board as a whole approves the appointment of new directors. The Framework Document and Investment Mandate have been updated to reflect these changes.

This year, the UKFI Board undertook a Board evaluation exercise carried out by the Executive Chairman and Chief Operating Officer. The findings were presented to the Board in February 2015. The review identified several areas for improvement, including the Board induction process and training for Board members, the structure and content of the risk register, succession planning and the terms of reference for the Board and committees. An action plan has been put in place to address these areas for improvement, and most of the required changes have already been implemented. A separate performance evaluation of the Executive Chairman was led by the Senior Independent Director which included the use of a questionnaire, a non-executive only feedback session and feedback from key stakeholders.

## Board committees

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

### Audit and Risk Committee

The Audit and Risk Committee has met five times during this reporting period.

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

The Audit and Risk Committee is authorised by the Board to investigate any activity within its terms of



reference as set out in the Framework Agreement and to seek any information it requires from any employee. The Board will ensure that employees cooperate fully with the Audit and Risk Committee.

The Committee has worked over the year to fulfil its detailed responsibilities including: considering the scope and planning of the audit, the audit fee and any questions of dismissal of the auditors; reviewing Financial Statements before submission to the Board; reviewing and considering reports from the auditors and the audit management letter and management response; and reviewing the operation and effectiveness of the Company's internal control systems. The Committee commissioned a report on UKFI's Governance arrangements from the Government Internal Audit Agency and made recommendations to the Board arising out of this report. The Committee also reviewed the Company's risk register and recommended to the Board revisions of its structure and content which have been adopted by the Company.

### Remuneration Committee

The Remuneration Committee has met four times 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).

### Nominations Committee

In September 2014 the Board took the decision to disband the Nominations Committee as its role had been superseded by UKFI's requirement to follow OCPA guidance when recruiting new Board members. The Board as a whole has taken on the remit of succession planning in the normal course of business.

### Meetings

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

Total number of meetings held in 2014/15	Board	Audit and Risk	Remuneration	Nominations <sup>1</sup>
	11	5	4	0
Number of meetings held in 2014/15				
Kirstin Baker ( A )	10	5		
Marshall Bailey ( R ) <sup>2</sup>	7		2	
Jitesh Gadhia ( R ) <sup>2</sup>	8		2	
Jane Guyett ( A ) <sup>2</sup>	8	3		
James Leigh-Pemberton	11			
Philip Remnant ( A ) <sup>3</sup>	11	2		
Lucinda Riches ( A, R )	11	4	4	
Former Directors				
Peter Gibbs ( A, R, N ) <sup>4</sup>	3	2	2	
Michael Kirkwood ( A, R, N ) <sup>4</sup>	3	2	2	

Notes:

1. The Nomination committee was disbanded in September 2014.
2. Marshall Bailey, Jitesh Gadhia and Jane Guyett joined the Board on 13 July 2014.
3. In September 2014 the Board agreed membership of its sub committees and Philip Remnant joined the Audit and Risk Committee.
4. Peter Gibbs and Michael Kirkwood left the Board on 12 July 2014.



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

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

UKFI maintains a risk register to record and facilitate the management of the risks faced by UKFI as an organisation and the risks which arise from shareholdings in the banking sector. The structure and content of the risk register has been revised over the last year and risks have been assigned into the following categories: operational, strategic and project. This document is maintained by the Executive Chairman 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 reviews its operational capabilities in order to ensure that it has the operating infrastructure, human resources and other capabilities necessary to carry out its mandate. The risk of interruption to UKFI's business by an external event is mitigated by a business continuity plan which is regularly reviewed.

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

UKFI has policies and procedures which set out how staff are required to operate to discharge their duties. These cover the operation of the UKFI Board, compliance, risk management, procurement, finance and human resources. In addition, all UKFI staff are required to undertake mandatory training which ensures awareness of the major risks associated with UKFI's day-to-day operating environment. There were two security incidents during the year, neither of which resulted in the leak of any information.

### Strategic Risks

The regulatory environment continued to evolve during the year. The Financial Policy Committee published its final review on 31 October 2014, setting out its proposals for the design of the leverage ratio framework, including its views on the calibration of that framework; the Bank of England published the results of its inaugural stress tests on 16 December 2014; and early in 2015 the UK banks presented their initial plans to the PRA on how they will implement the ring-fencing legislation. Both Lloyds and RBS passed the stress tests, and UKFI continues to work with both banks to monitor changes in regulation and to ensure that plans are in place to deal with them.



Remuneration in the banking sector remains a high profile issue, particularly in light of the continued cost of legacy issues. As in previous years, Lloyds and RBS continued to attract a high degree of attention and scrutiny. UKFI worked with the banks' remuneration committees to ensure that they pursued policies that promote long-term sustainable performance.

Banks in the UK and elsewhere continue to face substantial costs from legacy regulatory and conduct issues. These include costs of Payment Protection Insurance redress, settlements in relation to the manipulation of LIBOR and foreign exchange rates and Interest Rate Hedging Products misselling. RBS was fined by the FCA for IT failures which occurred in June 2012, and continues to be subject to litigation in the US related to the sale of mortgage-backed securities. UKFI engaged closely with the management and boards of Lloyds and RBS on the remediation of past conduct issues and to ensure that robust risk management and control systems are developed and maintained to minimise the incidence of such failings in the future.

UKFI engaged closely with UKAR in the past year to ensure that any customers impacted by the Consumer Credit Act issue identified within NRAM are fairly remediated whilst minimising unnecessary cost to the taxpayer. UKFI continues to work with UKAR to ensure all customers affected by these issues are treated fairly. UKFI also engages regularly with UKAR to assess operating, market and credit risks and strategies for mitigating them.

Economic data were encouraging during this financial year. However, there were periods of instability and volatility in financial markets, and these uncertainties present potential challenges to the investee banks and to the ability of UKFI to fulfil its mandate. UKFI engages with the banks' management regularly on plans to prepare for potential risks of this kind, and to assess how they are adapting business plans to respond to changes in economic conditions.

UKFI manages and mitigates market risks by carrying out rigorous analysis, supported by its advisors, to assess the implications of market conditions for disposal opportunities.

## Project Risks

In December 2014, UKFI announced that it would sell shares in Lloyds through a trading plan over a period of up to six months<sup>1</sup>. UKFI worked closely with its strategic financial advisor, legal advisor and its chosen broker to ensure that any risks to the successful delivery of the trading plan were identified and mitigated so far as possible.

In March 2015, UKAR announced that it will seek expressions of interest in respect of divestments, including options around Granite, and that it will explore potential options for the divestment of its mortgage servicing activities. UKFI worked closely with its financial advisor and with UKAR to identify the risks associated with these initiatives and to develop strategies to mitigate them as far as possible.

## Sustainability

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

<sup>1</sup> On 1 June, the Chancellor announced that the trading plan would be extended and will now end no later than 31 December 2015



## Transparency

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

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

## Payment of suppliers

In May 2010, the Government introduced a five day target for SME suppliers to receive payment. This accelerated payment from the previous 10 day target set in November 2008. During 2014/15, UKFI made 95 per cent of all supplier payments within five days.

## Review of effectiveness

The Audit Committee has decided that it is not economically viable to have an internal audit function operating within UKFI. During 2014/15 the HM Treasury Internal Audit Team, now part of the Government Internal Audit Agency, undertook a review of UKFI's governance arrangements commenting that the governance arrangements in place were managed to a high standard. The review recommended two areas for improvement: (1) reviewing the performance of the Board, Chairman and Board Committees; and (2) establishing an enhanced risk management framework. The UKFI Board effectiveness review was in progress at the time of the Internal Audit review.

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

UKFI's financial management service provider, HM Treasury, identified a significant weakness in one of its processes during 2014-15. This was addressed as soon as it was identified. In addition HM Treasury commissioned two pieces of internal audit work which identified no further concerns. The Chair of UKFI's Audit and Risk Committee, is also HM Treasury's Group Director of Finance. She is content that the processes in place under the service agreement are therefore sound from HM Treasury's perspective, and UKFI directors have been given assurance that they are not aware of any issues which could be compromising our management of public funds.

## 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 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 prepared in accordance with the special provisions of the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 as set out in Statutory Instrument 2008/409.

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

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

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

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



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

James Leigh-Pemberton

**James Leigh-Pemberton**  
Executive Chairman

16 June 2015



ANNUAL REPORT AND ACCOUNTS  
2014/15

06

Directors' Remuneration Report



## Remuneration Chair's foreword

Firstly, I would like to thank my predecessor Michael Kirkwood for his Chairmanship of the Remuneration Committee over the last five and a half years. I am delighted to take this role on, with the support of my new Board colleagues Marshall Bailey and Jitesh Gadhia. When agreeing the new Committee membership in September 2014, the Board determined that to comply with the best practice corporate governance the Executive Chairman would no longer be a member of the Remuneration Committee due to his executive director role.

UKFI is a small organisation averaging 15 full time staff over the course of 2014/15 and is highly dependent on each of its employees. Over the period of UKFI's existence the team's resourcing needs have been based on activity levels. There were a number of personnel changes during the year. The departure of the Head of Banking resulted in the reinstatement of the role of Head of Market Investments (which has oversight of the stewardship and disposal strategy of the Listed Investee companies) and the role of Head of Wholly Owned.

The new members of staff and directors were recruited in line with UKFI's stated policies and no changes were made to the Executive Chairman's remuneration. Full disclosure of decisions made on pay for both current and former directors are set out in the report.

Last year we restructured the Remuneration Report in accordance with The Large and Medium-sized Companies Groups (Accounts and Reports) (Amendment) Regulations 2013 which came into force on 1 October 2013. During the year we have also reviewed the Financial Reporting Council's Financial Reporting Standard for Smaller Entities which came into effect in January 2015 to ensure we are compliant with the relevant features of the financial reporting standard proportionate to the size of the company.

**Lucinda Riches**

Chair of the Remuneration Committee

16 June 2015



## Remuneration Committee

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

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

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

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

## Remuneration Policy

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

- deliver value for money;



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

UKFI operates a performance appraisal system and performance is reviewed semi-annually.

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

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

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

	UKFI employees	UKFI non-executive directors
Full time equivalents as at 31st March 2015	15 (15)	1 (1)
Average full time equivalents over 2014/15 period	15 (11)	1 (1)
Average Headcount over 2014/15	16 (12)	5 (5)

\* Figures in brackets relate to 2013/14

Therefore, it is important that the pay policy is flexible enough to respond to individual circumstances where necessary.

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

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



## Directors' remuneration policy

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

Elements of pay	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. Contributions made by employees are matched by UKFI between 3.5% and 15%.	Up to 15% of salary.	N/A
Bonus	Incentivise and reward good performance.	Bonuses are deferred over 3 years.	Up to 20% of salary.	Bonuses are awarded based on contribution of an individual to the furtherance of UKFI's objectives over the previous performance year.

*Note: At present no executive directors are entitled to bonus payments as the only executive director is the Executive Chairman who is not entitled to a bonus or a pension.*

## Fees for non-executive directors

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

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

## Service contracts

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

## Staff profile

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

During the year UKFI staff took an average of 4.4 (2013/14: 10.7) days of sickness absence.



## Changes in year

UKFI's Board was refreshed during the year; Jane Guyett, Marshall Bailey and Jitesh Gadhia were appointed on 13 July 2014 following the departure of Peter Gibbs and Michael Kirkwood. Following the new directors' appointments, to ensure good governance the Board appointed Philip Remnant as the Senior Independent Director. The Board agreed that the Senior Independent Director's fees should be equivalent to a committee chairmanship fee of £4,750 per annum.

## Bonuses awarded

A total of £103,346 was awarded as bonuses for the performance year 1 December 2013 – 30 November 2014, of which £47,457 was paid out and £55,889 was retained because UKFI bonuses are deferred over 3 years and subject to clawback over the period. The total award represents 5.9 per cent of staff costs incurred over the same period.

In the previous performance year (1 December 2012 – 30 November 2013) a total of £90,514 was awarded, of which £27,000 was waived. The bonuses awarded which were not waived represented 4.8 per cent of staff costs for the period, of which £26,376 was paid out and £37,138 deferred. This year £41,786 was paid out relating to deferred bonuses which were awarded during previous years.

## Service contracts for 2014/15

In 2014/15 each non-executive director was either appointed or re-appointed until 2017, the Executive Chairman was also re-appointed until 2017.

The notice period for the termination of all directors' contracts is three months.

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

The current service contracts for each of the current directors are set out below:

Single total figure of remuneration for executive directors	Salary (£)		Bonus payments (£)		Pension (£)		Total (£)	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
James Leigh-Pemberton	180,000	76,935 (Full-year equivalent: 180,000)	0	0	0	0	180,000	76,935
Jim O'Neil (until 20 September 2013)	0	85,000 (Full-year equivalent: 180,000)	0	0	0	12,750	0	97,750 (Full-year equivalent: 27,000)





## Non-executive directors

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

The table below reports the salary for each non-executive director for the period ending 31 March 2015 and has been audited by the Company's auditors. The value of non-cash benefits is zero, and salary therefore includes only gross salary.

Single total figure of remuneration for non-executive director	Salary (£)	
	2014/15	2013/14
Kirstin Baker (from 31 January 2013)	0	0
Robin Budenberg (until 31 December 2013)	0	56,250 (Full-year equivalent: 75,000)
Marshall Bailey (from 13 July 2014)	23,168 (Full-year equivalent: 30,875)	0 0
Jitesh Gadhia (from 13 July 2014)	23,168 (Full-year equivalent: 30,875)	0 0
Peter Gibbs (until 12 July 2014)	10,055 (Full-year equivalent: 35,625)	35,625
Jane Guyett (from 13 July 2014)	23,168 (Full-year equivalent: 30,875)	0 0
Michael Kirkwood (until 12 July 2014)	10,725 (Full-year equivalent: 38,000)	38,000
Philip Remnant	33,276 (Full-year equivalent: 35,625)	30,875
Lucinda Riches	35,625	35,625

*Note: Kirstin Baker was a member of the Board as an employee of HM Treasury and did not receive remuneration for her services. During the year the Nominations Committee was disbanded, Philip Remnant was appointed Senior Independent Director and became a member of the Audit and Risk Committee and changes in fees have been reflected in the full-year equivalent figure.*

The ratio between the highest paid director and the median pay of UKFI of £36,542 is 4.9 (2013/14: ratio of 4.3 between the highest paid director and the median pay of £41,976).

## Directors' remuneration – performance-related pay

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

The appraisal year for UKFI runs from 1 December – 30 November. Any awards made for the period December 2014 – November 2015 will be determined by the Remuneration Committee in line with the annual performance timetable in January 2016.



Director	Expenses (£) Year ended 31 Mar 2015	Expenses (£) Year ended 31 Mar 2014
Kirstin Baker	0	0
Robin Budenberg	0	0
Marshall Bailey	80	0
Jitesh Gadhia	0	0
Peter Gibbs	0	0
Jane Guyett	0	0
Michael Kirkwood	0	0
James Leigh-Pemberton	363	70
Jim O'Neil	0	904
Philip Remnant	0	0
Lucinda Riches	0	0

### Directors' pension arrangements

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

Jim O'Neil participated in the UKFI Pension Scheme which is provided by Standard Life until he left. UKFI match individual contributions up to 15 per cent of salary.

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

16 June 2015



# ANNUAL REPORT AND ACCOUNTS 2014/15

## 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

I have audited the financial statements of UK Financial Investments Limited for the year ended 31 March 2015 which comprise the Income Statement, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

### Respective responsibilities of the directors and the auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report. I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its results for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

### Opinion on regularity

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



### Opinion on other matter prescribed by the Companies Act 2006

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

### Matters on which I report by exception

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

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

**Matthew Kay**

Senior Statutory Auditor

17 June 2015

For and on behalf of the

**Comptroller and Auditor General (Statutory Auditor)**

National Audit Office

157-197 Buckingham Palace Road

London

SW1W 9SP



# ANNUAL REPORT AND ACCOUNTS 2014/15

# 08

## UKFI Financial Statements



### Income Statement for the year ended 31 March 2015

	Note	Mar-15 £000	Mar-14 £000
Revenue	3(e), 4	3,558	2,757
		<b>3,558</b>	<b>2,757</b>
Expenses and fees incurred on asset disposals		1,115	733
UKFI Administrative Expenses		2,443	2,024
		<b>3,558</b>	<b>2,757</b>
<b>Profit/(Loss) Before Corporation Tax</b>	2-7	<b>0</b>	<b>0</b>
Taxation	3(f)	0	0
<b>Profit/(Loss) for the Period</b>		<b>0</b>	<b>0</b>

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

All activities are classified as continuing.

The notes on pages 59 to 69 are an integral part of these financial statements.



## Statement of Financial Position as at 31 March 2015

	Note	31 Mar 15 £000	31 Mar 14 £000
<b>Non current Assets</b>			
Property, plant and equipment	8	29	3
<b>Total non current assets</b>		<b>29</b>	<b>3</b>
<b>Current Assets</b>			
Trade and other receivables	9	163	712
Cash and cash equivalents	10	738	226
<b>Total Current Assets</b>		<b>901</b>	<b>938</b>
<b>Total Assets</b>		<b>930</b>	<b>941</b>
<b>Equity</b>			
Share capital	11	0	0
Retained earnings		0	0
<b>Total Equity</b>		<b>0</b>	<b>0</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other payables	12	872	894
<b>Total Current Liabilities</b>		<b>872</b>	<b>894</b>
<b>Non current Liabilities</b>			
Trade and other payables	13	58	47
<b>Total Non current Liabilities</b>		<b>58</b>	<b>47</b>
<b>Total Liabilities</b>		<b>930</b>	<b>941</b>
<b>Total Equity plus Liabilities</b>		<b>930</b>	<b>941</b>

These financial statements were approved by the Board of Directors on 16 June 2015 and were signed on its behalf by:

**James Leigh-Pemberton**  
Director

UKFI Company Number 6720891





### Statement of Cash Flows for the year ended 31 March 2015

	Note	31 Mar 15 £000	31 Mar 14 £000
<b>Cash flows from operating activities</b>			
Profit/(Loss) for the period		0	0
Adjustments for:			
Depreciation	8	7	3
		<u>7</u>	<u>3</u>
Decrease/(increase) in trade and other receivables	9	549	(498)
(Decrease)/increase in trade and other payables	12	(11)	590
<b>Net cash from operating activities</b>		<u>545</u>	<u>95</u>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(33)	0
Acquisition of intangible assets		0	0
<b>Net cash used in investing activities</b>		<u>(33)</u>	<u>0</u>
Net increase/(decrease) in cash and cash equivalents		512	95
Cash and cash equivalents at 1 April		226	131
<b>Cash and cash equivalents at 31 March 2014</b>		<u>738</u>	<u>226</u>

The notes on pages 59 to 69 are an integral part of these financial statements.



## Notes to the Financial Statements

### 1. Reporting Entity

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

### 2. Basis of Preparation

#### (a) Statement of Compliance

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

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

The Financial Statements were authorised for issue by the Board of Directors on 16 June 2015.

#### (b) Basis of Measurement

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

As described in the UKFI remit section (p.5) of these annual report and accounts UKFI was set up for a finite purpose, specifically: UK Financial Investments Ltd (UKFI) was created in November 2008 as part of the UK's response to the financial crisis with the overarching objective to manage the shareholdings commercially to create and protect value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government's ownership stakes in an orderly and active way over time, further detail can be found in the UKFI Framework Document and Investment Mandate published on the Company's website.

The directors have concluded that it is appropriate for the financial statements to be prepared on a Going Concern basis as in the immediate term, HM Treasury has stated that it will fund UKFI's operations for the next financial year; and the announcement made on 20 May (detailed in note 19 'Events after the reporting period') confirms that UKFI will remain in its current form operating as a subsidiary of UK Government Investments for the foreseeable future.

#### (c) Functional and presentation currency

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

#### (d) Use of estimates and judgements

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

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

#### (e) Statement of changes on Tax payers Equity

Management fees are recognised in the income statement as they are earned. As described in the UKFI Framework Document section paragraph 5.2 '...periodical management fee being



## Notes to the Financial Statements (continued)

representative of the anticipated costs and expenses to be incurred by the Company in effecting its investment strategies and otherwise fulfilling its responsibilities under the Framework Document'. Therefore, the Company is not permitted to make a profit or a loss.

### 3. Significant accounting policies

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

#### (a) Foreign currency

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

#### (b) Property, plant and equipment and intangible assets

##### (i) Recognition and measurement

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

##### (ii) Subsequent costs

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

##### (iii) Depreciation and amortisation

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

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

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

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

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

#### (c) Leased assets

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



## Notes to the Financial Statements (continued)

### (d) Employee benefits

#### (i) Defined contribution plans

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

#### (ii) Short- and Long-term employee benefits

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

### (e) Revenue

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

### (f) Corporation tax

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

### (g) VAT

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

### (h) Trade receivables

Trade and other payables are stated at cost.

### (i) Cash and cash equivalents

Cash and cash equivalents comprise solely of cash balances.

### (j) Financial Assets and Financial Liabilities

Financial assets and financial 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 purchase or usage requirements, are recognised when, and to the extent which, performance occurs, i.e. when receipt or delivery of the goods or services is made.

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

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



## Notes to the Financial Statements (continued)

### (k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2015, and have not been applied in preparing these Financial Statements. None of these are expected to have an effect on the Financial Statements of the Company.

### (l) Segmental Reporting

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

## 4. Income

	Mar 15 £000	Mar 14 £000
Investment management fees	2,443	2,024
Reimbursement of fees relating to asset disposals	1,115	733
<b>Total</b>	<b>3,558</b>	<b>2,757</b>

## 5. Remuneration of Directors

	Mar 15 £000	Mar 14 £000
Directors' emoluments	379	414
<b>Total</b>	<b>379</b>	<b>414</b>

The level of directors' emoluments decreased due to the roles of Chief Executive and Chairman being combined into the Executive Chairman role for a full financial reporting year. Last year, the Company had a Chief Executive and Chairman in post for the majority of the year.



## Notes to the Financial Statements (continued)

### 6. Personnel Expenses

The average number of full time equivalents working at the Company during the period was 16 (2013-14: 12). This figure includes Directors and long-term inward secondees.

The aggregate payroll costs of these people were as follows:

	Mar 15 £000	Mar 14 £000
Wages and salaries	1,458	1,101
Social Security contributions	176	134
Defined contribution plans	63	50
Contributions to other pension plans	56	32
Agency Staff	0	0
<b>Total</b>	<b>1,753</b>	<b>1,317</b>

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

Contributions to other pension plans are included in the amount recharged for HM Treasury, DECC and Defra secondees. UKFI has no ongoing liability in respect of the underlying pension schemes.

A bonus amount of £103,346 was awarded in respect of the period 1 December 2013 to 30 November 2014, representing 5.9 per cent of staff costs incurred over the same period. In respect of the previous performance years, £41,786 was paid out this year in deferred bonuses. As described on p.49, UKFI bonuses are deferred over 3 years and are subject to claw back over the period.

### 7. Profit before tax

Profit before tax is stated after charging:

	Mar 15 £000	Mar 14 £000
Auditors' remuneration: Audit of these Financial Statements	12	12



## Notes to the Financial Statements (continued)

### 8. Property, Plant and Equipment

Mar 15	IT £000	F&F £000	Total £000
<b>Cost or valuation</b>			
At 1 April 2014	103	6	109
Additions	33	0	33
Disposals	(103)	0	(103)
<b>At 31 March 2015</b>	<b>33</b>	<b>6</b>	<b>39</b>
<b>Depreciation</b>			
At 1 April 2014	(102)	(4)	(106)
Relating to disposals	103	0	103
Charged in year	(6)	(1)	(7)
<b>At 31 March 2015</b>	<b>(5)</b>	<b>(5)</b>	<b>(10)</b>
<b>Carrying Value at 31 March 2015</b>	<b>28</b>	<b>1</b>	<b>29</b>
Carrying Value at 31 March 2014	1	2	3
<b>Mar 14</b>	<b>IT £000</b>	<b>F&amp;F £000</b>	<b>Total £000</b>
<b>Cost or valuation</b>			
At 1 April 2013	103	6	109
Additions	0	0	0
Disposals	0	0	0
<b>At 31 March 2014</b>	<b>103</b>	<b>6</b>	<b>109</b>
<b>Depreciation</b>			
At 1 April 2013	(100)	(3)	(103)
Charged in year	(2)	(1)	(3)
<b>At 31 March 2014</b>	<b>(102)</b>	<b>(4)</b>	<b>(106)</b>
<b>Carrying Value at 31 March 2014</b>	<b>1</b>	<b>2</b>	<b>3</b>
Carrying Value at 31 March 2013	3	3	6



## Notes to the Financial Statements (continued)

### 9. Trade Receivables and Other Current Assets

	Note	31 Mar 15 £000	31 Mar 14 £000
Prepayments		11	20
Trade receivables due from related parties	18	152	692
<b>Total</b>		<b>163</b>	<b>712</b>

### 10. Cash and Cash Equivalents

	31 Mar 15 £000	31 Mar 14 £000
Government Banking Service	738	226
<b>Total</b>	<b>738</b>	<b>226</b>

### 11. Called Up Share Capital

	31 Mar 15 £	31 Mar 14 £
<b>Authorised</b>		
Equity: Ordinary shares of £1 each	100	100
<b>Allotted, called up and fully paid</b>		
Equity: Ordinary shares of £1 each	1	1

### 12. Trade payables and other current liabilities

	31 Mar 15 £000	31 Mar 14 £000
Trade and other payables due to related parties	522	111
Other trade payables	11	6
Non trade payables and accrued expenses	263	596
Taxation and social security	76	181
<b>Total</b>	<b>872</b>	<b>894</b>





## Notes to the Financial Statements (continued)

### 13. Non current liabilities

	31 Mar 15 £000	31 Mar 14 £000
Trade and other payables due to related parties	0	0
Non trade payables and accrued expenses	51	41
Taxation and social security	7	6
<b>Total</b>	<b>58</b>	<b>47</b>

### 14. Operating Leases

Operating lease rentals are payable as follows:

	31 Mar 15 £000	31 Mar 14 £000
Less than one year	130	195
Between two and five years	0	130
More than five years	0	0
<b>Total</b>	<b>130</b>	<b>325</b>

£176,000 was recognised as an operating lease expense in 2014/15.

### 15. Dividends

UKFI has no intention of making a profit at any point, and does not intend to declare a dividend at any point. No dividend was declared or paid during the period (2013/14: Nil).



## Notes to the Financial Statements (continued)

### 16. Financial Instruments

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

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

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

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

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

#### Market Risk

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

#### Credit Risk

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

#### Liquidity Risk

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

### 17. Contingent Liabilities

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



## Notes to the Financial Statements (continued)

### 18. Related Parties

As at 31 March 2015, the Company is a wholly owned subsidiary undertaking of HM Treasury which is registered in England and Wales and operates in the United Kingdom.

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

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

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

	31 Mar 15 £000	31 Mar 14 £000
<b>Trade receivables due from related parties</b>		
HM Treasury	0	154
Lloyds Banking Group	0	538
UK Asset Resolution	152	0
<b>Total</b>	<b>152</b>	<b>692</b>

	31 Mar 15 £000	31 Mar 14 £000
<b>Trade and other payables due to related parties</b>		
HM Treasury less than one year	522	111
HM Treasury more than one year	0	0
<b>Total</b>	<b>522</b>	<b>111</b>



## Notes to the Financial Statements (continued)

During the period, the Company received income from the following related parties:

	31 Mar 15	31 Mar 14
	£000	£000
HM Treasury - provision of investment management services	2,443	2,024
HM Treasury - expenses for asset disposals	294	195
Lloyds - expenses and fees for Lloyds disposals	389	538
UKAR - expenses and fees for asset disposals	432	0
<b>Total</b>	<b>3,558</b>	<b>2,757</b>

## 19. Events after the reporting period

On 20 May 2015, the Government announced that UKFI would become a subsidiary of a new government-owned company, UK Government Investments. The Shareholder Executive will become a division of UK Government Investments. UKFI will continue to operate under its current Framework Document and Investment Mandate, and as such, UKFI will continue to focus on securing value for the taxpayer. The Company's activities will continue to be governed by its Board, whose remit and membership will also remain unchanged.

