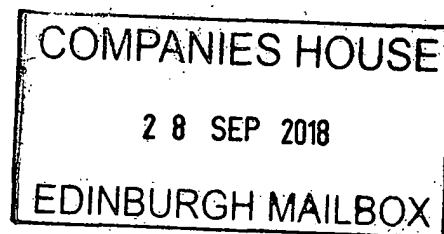


LBG EQUITY INVESTMENTS LIMITED (FORMERLY LB MORTGAGES LIMITED)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

MEMBER OF LLOYDS BANKING GROUP PLC



Directors

M G Culmer  
A T Rougier  
D R Chalk

Company Secretary

P Gittins

Registered Office

25 Gresham Street  
London  
EC2V 7HN

Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

Bankers

Lloyds Bank plc  
25 Gresham Street  
London  
EC2V 7HN

**DIRECTORS' REPORT****For the year ended 31 December 2017**

The Directors, as stated on page 2, submit the Directors Report and audited financial statements of LBG Equity Investments Limited ("the Company") for the year ended 31 December 2017.

**Incorporation**

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 02412574).

The Company changed its name on 23 June 2017 from LB Mortgages Limited.

**Principal activity**

The principal activity of the company is that of a holding company.

**Business review**

During the year the Company issued share capital of £300m and received funding of £571m to deliver the next stage of Lloyds Banking Group strategy.

Under the requirements of the ring fencing regulations, on the 13 October 2017 Lloyds Development Capital (Holdings) Limited, Housing Growth Partnership Manager Limited, Housing Growth Partnership GP LLP, Housing Growth Partnership LP and Uberior Investments Limited transferred from being subsidiaries of Lloyds Bank plc to the Company.

**Parent undertaking**

The Company's immediate parent undertaking and ultimate parent undertaking is Lloyds Banking Group plc ("the Group"), which is an entity incorporated in Scotland.

**Results and dividends**

The loss before tax for the Company for the year ended 31 December 2017 was £2,976,874 (2016: £nil).

There were no dividends paid during the year (2016: £nil). No final dividend has been paid or proposed for the year ended 31 December 2017.

**Going concern**

As set out in Note 2 'Going concern - principles underlying going concern assumption' of the notes to the financial statements, the directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

**Directors and their interests**

The Directors at the date of this report are as stated on page 1. Dates of resignations and appointments during the year, or subsequent to the year end, were as follows:

<u>Director</u>	<u>Date of Appointment</u>	<u>Date of Resignation</u>
R Horner	24 April 2017	26 June 2017
H L Williams	-	24 April 2017
M G Culmer	26 June 2017	-
A T Rougier	8 September 2017	-
D R Chalk	6 July 2018	-

**DIRECTORS' REPORT (continued)**  
**For the year ended 31 December 2017**Directors and their interests (continued)

No other Directors served throughout the year.

The names of the Directors of the company who were in office during the year and up to the date of the signing of financial statements are shown on page 2.

No Director had any interest in any material contract or arrangement with the company during or at the end of the year.

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company, (including former Directors of the Company who resigned during the prior year), a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements (or from the date of appointment in respect of the Directors who joined the Board of the Company during the financial year). Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The deed for the Directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate Directors' and Officers' liability insurance cover which was in place throughout the financial year.

Independent Auditors and disclosure of information to Independent Auditors

The Directors in office at the date of this report confirm that:

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

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

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

Statement of Directors' Responsibilities

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 the Directors have prepared the Company's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

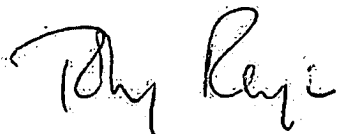
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

**DIRECTORS' REPORT (continued)**  
**For the year ended 31 December 2017**

Statement of Directors' Responsibilities (continued)

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

On behalf of the board,

A handwritten signature in black ink, appearing to read 'A T Rougier', is written over a faint, larger version of the same signature.

A T Rougier  
Director

28 September 2018

Company Number 02412574

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LBG EQUITY INVESTMENTS LIMITED****Report on the audit of the financial statements**

---

**Opinion**

In our opinion, LBG Equity Investments Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

---

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

---

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

---

**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LBG EQUITY INVESTMENTS LIMITED  
(CONTINUED)***Directors' Report (continued)*

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

**Responsibilities for the financial statements and the audit***Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

*Use of this report*

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

---

**Other required reporting****Companies Act 2006 exception reporting**

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

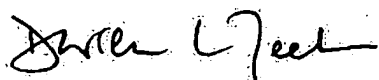
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified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

We have no exceptions to report arising from this responsibility.

---

**Entitlement to exemptions**

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Darren Meek (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
28 September 2018

# INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Finance income		13	-
<b>Total income</b>		<u>13</u>	<u>-</u>
Finance costs	6	(2,977)	-
<b>(Loss)/result before taxation</b>		(2,964)	-
Taxation credit	7	563	-
<b>(Loss)/result for the year</b>		<u>(2,401)</u>	<u>-</u>
<b>Attributable to:</b>			
Owners		(2,401)	-
<b>(Loss)/result for the year</b>		<u>(2,401)</u>	<u>-</u>

The notes on pages 13 to 22 are an integral part of these financial statements.

The loss for the year arises from the Company's continuing operations.



**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2017**

	Note	2017 £000	2016 £000
(Loss)/result for the year		(2,401)	-
<b>Total comprehensive income for the year</b>		<u>(2,401)</u>	<u>-</u>
Total comprehensive income attributable to the owners		<u>(2,401)</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u>(2,401)</u>	<u>-</u>

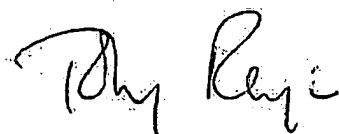
The notes on pages 13 to 22 are an integral part of these financial statements.

**BALANCE SHEET**  
As at 31 December 2017

	Note	2017 £000	2016 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	8	861,971	-
		<u>861,971</u>	<u>-</u>
<b>Current assets</b>			
Amounts due from other group undertakings	9	6,256	-
Current tax receivable		563	-
		<u>6,819</u>	<u>-</u>
<b>Total assets</b>		<u>868,790</u>	<u>-</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Amounts due to other group undertakings	10	571,191	-
		<u>571,191</u>	<u>-</u>
<b>EQUITY</b>			
Share capital	11	300,000	-
Accumulated losses		(2,401)	-
<b>Total equity</b>		<u>297,599</u>	<u>-</u>
<b>Total equity and liabilities</b>		<u>868,790</u>	<u>-</u>

The notes on pages 13 to 22 are an integral part of these financial statements.

The financial statements on pages 8 to 22 were approved by the Board of Directors and were signed on its behalf by:



A T Rougier  
Director

28 September 2018

Company number: 02412574

**STATEMENT OF CHANGES IN EQUITY**

	Share Capital £000	Accumulated Losses £000	Total Equity £000
<b>Balance at 1 January 2016</b>	-	-	-
<b>Result for the year</b>			
Result after taxation	-	-	-
<b>Total comprehensive result</b>	-	-	-
<b>Balance at 31 December 2016</b>	-	-	-
<b>Loss for the year</b>			
Loss after taxation	-	(2,401)	(2,401)
<b>Total comprehensive loss</b>	-	(2,401)	(2,401)
<b>Issue of share capital</b>	300,000	-	300,000
<b>Balance at 31 December 2017</b>	300,000	(2,401)	297,599

The notes on pages 13 to 22 are an integral part of these financial statements.

**CASH FLOW STATEMENT****For the year ended 31 December 2017**

	Note	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
(Loss)/result before income tax		(2,964)	-
Adjustments:			
Increase in debtors	9	(5)	-
Increase in creditors		2,864	-
<b>Net cash outflow from operating activities</b>		<u>(106)</u>	<u>-</u>
<b>Cash flows from investing activities</b>			
Acquisition of investments		<u>(861,971)</u>	<u>-</u>
<b>Net cash used in investing activities</b>		<u>(861,971)</u>	<u>-</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		568,327	-
Proceeds from share capital issue		<u>300,000</u>	<u>-</u>
<b>Net cash generated from financing activities</b>		<u>868,327</u>	<u>-</u>
Net increase in cash and cash equivalents		6,251	-
Cash and cash equivalents at 1 January		-	-
<b>Cash and cash equivalents at 31 December</b>	9	<u>6,251</u>	<u>-</u>

The notes on pages 13 to 22 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2017****1. Significant accounting policies**

The Company is incorporated and domiciled in England and Wales.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**(a) Financial statements**

The financial statements of the Company comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement together with the related notes to the financial statements.

The financial statements are presented in Pounds Sterling which is the Company's functional and presentational currency.

**(b) Basis of preparation**

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, under the historical cost convention.

The financial statements have been prepared in accordance with the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006.

**(c) Immediate parent undertaking**

These separate financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under IAS 27 (revised), 'Consolidated and separate financial statements' and Section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its parent, Lloyds Banking Group plc.

**(d) Investment in subsidiary undertakings**

Subsidiaries are entities controlled by the Company. The Company controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of these factors. Details of the subsidiaries are given in Note 8 to the financial statements. These are carried at cost less impairment provisions.

**(e) Impairment****Non-financial assets**

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at the end of each reporting period. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2017**

**1. Significant accounting policies (continued)**

**(e) Impairment (continued)**

**Non-financial assets (continued)**

At the end of each reporting period the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indicator exists, and there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised, the previously recognised impairment loss is reversed through the Income Statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Subsidiaries - In respect of investments in subsidiaries this assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the subsidiary.

**(f) Cash and cash equivalents**

Cash and cash equivalents consist of cash balances and overdrafts held within the Group that are freely available and deposits held with the Group with an original maturity of three months or less.

**(g) Taxation, including deferred income taxes**

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

**(h) Borrowing costs**

Borrowing costs, including interest and other costs incurred in relation to the borrowing of funds, are recognised as an expense in the period in which they are incurred.

**(i) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

**(j) Dividends**

Dividends are recognised in equity only when the company has the obligation to pay the ordinary shareholder.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2017****2. Going concern - principles underlying going concern assumption**

The Directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

**3. Critical accounting estimates and judgements**

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Impairment losses on subsidiaries**

The company regularly reviews the portfolio of subsidiaries for impairment. In determining whether an impairment has occurred at the balance sheet date the company considers items such as the solvency, profitability and the fair value of assets held by each subsidiary.

The reported fair value of the assets held by subsidiaries are affected by estimates and assumptions. These are continually evaluated and are based on international private equity and venture capital valuation guidelines. These include cost pricing for recent transactions, comparative industry price earnings ratios discounted for marketability and performance of the investee and net asset valuations for asset based investees, as an estimate of fair value.

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Changes in assumptions used in these models could affect the reported fair value of financial instruments.

Whilst the fair value estimates attempt to present the amount the subsidiaries could realise in a current transaction, the final realisation may be different as future events will also affect the current estimates of fair value. The effect of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to the net assets of the subsidiaries and therefore material to the Company's impairment assessment.

**4. (Loss)/result before taxation**

Audit fees for the Company are borne by the ultimate parent company, which makes no recharge to the Company.

The Company has no employees (2016:nil).

The Directors, who are considered to be key management, received no remuneration in respect of their services to the Company.

**5. Finance income**

	2017	2016
	£000	£000
Interest receivable from other group companies	<u>13</u>	<u>-</u>
	<u>13</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2017**

**6. Finance costs**

	2017 £000	2016 £000
Interest payable to other group companies	2,977	-
	<u>2,977</u>	<u>-</u>

**7. Taxation credit**

	2017 £000	2016 £000
Recognised in the Income Statement		
<b>Analysis of credit for the year</b>		
Current tax on loss for the year	563	-
<b>Income tax credit</b>	<u>563</u>	<u>-</u>

The income tax credit (2016: n/a) is equal to (2016: n/a) the standard rate of corporation tax in the UK applied to the loss for the year due to the following factors:

	2017 £000	2016 £000
Loss before tax	2,964	-
Loss multiplied by the standard rate of corporation tax in the UK – 19.00% (2016: 20.00%)	563	-
<b>Total income tax credit</b>	<u>563</u>	<u>-</u>

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016 further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

**8. Investment in subsidiary undertakings**

	2017 £000	2016 £000
At beginning of period	-	-
Additions	861,971	-
At end of period	<u>861,971</u>	<u>-</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2017**

**8. Investment in subsidiary undertakings (continued)**

The following comprises a list of all direct subsidiary undertakings of the Company, as at 31 December 2017:

<u>Company name</u>	<u>% of interest held by immediate parent</u>	<u>Class of share/Type of holding</u>	<u>Nature of business</u>	<u>Registered address</u>
Lloyds Development Capital (Holdings) Ltd	100%	Ordinary shares	Investment Holding Company	25 Gresham Street London, EC2V 7HN
Uberior Investments Ltd	100%	Ordinary shares	Investment Company	The Mound Edinburgh, EH1 1YZ
Housing Growth Partnership GP LLP	90%	Limited Partner	GP to Small Authorised UK AIFM	25 Gresham Street London, EC2V 7HN
Housing Growth Partnership LP	50%	Limited Partner	LP to Small Authorised UK AIFM	25 Gresham Street London, EC2V 7HN
Housing Growth Partnership Manager Limited	100%	A ordinary shares B ordinary shares	Small Authorised UK AIFM	25 Gresham Street London, EC2V 7HN

**9. Amounts due from other group undertakings**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Cash at bank	6,251	-
Interest receivable	5	-
	<b>6,256</b>	<b>-</b>

**10. Amounts due to other group undertakings**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Bank borrowings	571,191	-
	<b>571,191</b>	<b>-</b>

**11. Share capital**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Allotted, issued and fully paid		
300,000,002 ordinary share of £1 each	300,000	-
	<b>300,000</b>	<b>-</b>

At 31 December 2017, the issued share capital comprised 300,000,002 £1 ordinary shares (2016: 2 £1 ordinary shares).

All issued shares are fully paid and have equal voting and dividend distribution rights.

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Company's parent manages the company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing.

The Company's capital comprises all components of equity, movements in which appear in the statement of changes in shareholder's equity.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2017**

**12. Financial instruments**

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including interest rate risk, foreign exchange risk and equity risk) and liquidity risk and are managed within the framework established for the Group.

Risk management within the Group is carried out by a central treasury department (Group Corporate Treasury) under policies approved by the Board of Directors. Group Corporate Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum credit risk exposure of the company in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at 31 December.

Financial assets which are neither past due nor impaired for credit risk:

	Note	2017 £000	2016 £000
Cash at bank	9	6,251	-
Interest receivable	9	5	-
		<u>6,256</u>	<u>-</u>

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each exposure or loan is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group plc. The table below reflects the credit rating of the financial assets portfolio net of any financial guarantees received.

Financial asset by credit rating:		AA	A	BBB	Rated BB or lower	Not rated	Total
As at 31 December 2017							
	Note	£000	£000	£000	£000	£000	£000
<b>On-balance sheet</b>							
Cash at bank	9	-	6,251	-	-	-	6,251
Interest receivable	9	-	5	-	-	-	5
<b>Total assets</b>		<u>-</u>	<u>6,256</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,256</u>
At 31 December 2016							
		AA	A	BBB	Rated BB or lower	Not rated	Total
	Note	£000	£000	£000	£000	£000	£000
<b>On-balance sheet</b>							
Cash at bank	9	-	-	-	-	-	-
Interest receivable	9	-	-	-	-	-	-
<b>Total assets</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

At the balance sheet date the company assesses if there is objective evidence that the financial assets have become impaired. Evidence of impairment may include indications that the counterparty is experiencing financial difficulty, default or delinquency in settlements of amounts due or debt restructurings to reduce the financial burden on the counterparty.

At 31 December 2017 and 31 December 2016 there were no impairments relating to credit risk against any financial assets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2017**

**12. Financial instruments (continued)**

**Market risk**

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors such as:

- Interest rates (interest rate risk)
- Foreign exchange rates (foreign exchange risk)
- Equity markets (equity risk)

**Interest rate risk**

Interest rate risk exists where the Company's financial assets and liabilities have interest rates set under different bases, or reset at different times.

The Company is exposed to interest rate fluctuations on its bank borrowings and cash at bank. Interest is charged on the funding provided at a fixed rate over the Bank of England base rate. A sensitivity analysis has been prepared to illustrate the impact of a change in the interest rates on the net financial expense of the Company. If base rates increased by 0.25% and all other variables remained consistent this would increase net financial expense by £1,428k (2016: £nil).

Interest rate exposure is concentrated primarily within the UK money markets.

**Foreign exchange risk**

Foreign exchange risk arises on balances denominated in a currency other than Pounds Sterling. The Company has no foreign currency balances thus no sensitivity to foreign exchange exposure is considered to exist.

**Liquidity risk**

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows relating to assets, liabilities and off-Balance Sheet instruments. The Company's short term liquidity requirements are supported by a facility with another Lloyds Banking Group plc company subject to internal limits. Overall liquidity of the Group is managed centrally.

The table below sets out the cash flows payable by the Company in respect of financial liabilities, by remaining contractual undiscounted repayments of principal and interest at the Balance Sheet date.

**As at 31 December 2017**

	Note	Up to 1 month £000	1 - 3 months £000	3 - 12 months £000	1 - 5 years £000	Over 5 years £000	Total £000
<b>On-balance sheet</b>							
Bank borrowings	10	-	-	-	-	571,191	571,191
<b>Total liabilities</b>		-	-	-	-	571,191	571,191

**As at 31 December 2016**

	Note	Up to 1 month £000	1 - 3 months £000	3 - 12 months £000	1 - 5 years £000	Over 5 years £000	Total £000
<b>On-balance sheet</b>							
Bank borrowings	10	-	-	-	-	-	-
<b>Total liabilities</b>		-	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2017****13. Related party transactions**

The Company has a related party relationship with fellow group companies Bank of Scotland plc and Lloyds Bank plc. A number of banking transactions are entered into with Bank of Scotland plc and Lloyds Bank plc in the normal course of business including loans and deposits.

Details of the related party transactions balances at the Balance Sheet date are disclosed in the table below.

Nature of transaction	Note	2017 £000	2016 £000	Disclosure in financial statements
<b>Transactions and balances with Bank of Scotland plc:</b>				
Purchase of investments	8	266,473	-	Investments
Bank borrowings	10	(571,191)	-	Amounts due to other group undertakings
Interest expense	6	2,918	-	Finance costs
<b>Transactions and balances with Lloyds Bank plc:</b>				
Purchase of investments	8	591,879	-	Investments
Cash at bank	9	6,251	-	Amounts due from group undertakings
Interest receivable	9	5	-	Amounts due from group undertakings
Interest expense	6	59	-	Finance costs
Interest received	5	(8)	-	Finance income

Bank borrowings are interest bearing and during the year rates of interest of between 2.87% and 2.94% (2016: n/a) were charged.

Cash at bank is interest bearing and during the year rates of between 0.29% and 0.44% (2016: n/a) were received.

During the year the Company issued 300,000,000 ordinary shares of £1 which were fully purchased by its parent Lloyds Banking Group plc.

Administration and support costs are borne by fellow Group undertakings on behalf of the ultimate parent, Lloyds Banking Group plc, which makes no recharge to the Company.

The registered offices of related parties are noted below:

<u>Related party</u>	<u>Registered address</u>
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank plc	25 Gresham Street, London, EC2V 7HN

**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2017****14. Parent undertakings**

The Company's immediate parent company is Lloyds Banking Group plc.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and Financial Statements of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com).

**15. Related undertakings**

In compliance with Section 409 of the Companies Act 2006, the following comprises a list of all indirect subsidiary undertakings of the Company, as at 31 December 2017:

Name of undertaking	Country of Incorporation or residency	Class of shareholding	%Held	
LDC (Managers) Limited	England and Wales	Ordinary	100	(i)
LDC (General Partner) Limited	England and Wales	Ordinary	100	(i)
LDC Ventures Trustees Limited	England and Wales	Ordinary	100	(i)
LDC Ventures Carry Limited	England and Wales	Ordinary	100	(i)
LDC (Nominees)	England and Wales	Ordinary	100	(i)
LDC Parallel (Nominees) Limited	England and Wales	Ordinary	100	(i)
LDC I LP	England and Wales	n/a	100	(i)
LDC II LP	England and Wales	n/a	100	(i)
LDC IV LP	England and Wales	n/a	100	(i)
LDC V LP	England and Wales	n/a	100	(i)
LDC VI LP	England and Wales	n/a	100	(i)
LDC (Asia) Limited	Hong Kong	Ordinary	100	(ii)
Bank of Scotland Capital Funding LP	Jersey	n/a	100	(iii)
HBOS Capital Funding LP	Jersey	n/a	100	(iii)
HBOS Capital Funding No 1 LP	Jersey	n/a	100	(iii)
HBOS Capital Funding No 3 LP	Jersey	n/a	100	(iii)
HBOS Capital Funding No 4 LP	Jersey	n/a	100	(iii)
Uberior Fund Investments Limited	Scotland	Ordinary	100	(iv)
Uberior Ventures Limited	Scotland	Ordinary	100	(iv)
BOS Edinburgh No. 1 Limited	Scotland	Ordinary	100	(iv)
Bank of Scotland Insurance Services Limited	Scotland	Ordinary	100	(v)
Prestonfield Investments Limited	Scotland	Ordinary	100	(iv)
Uberior Equity Limited	Scotland	Ordinary	100	(iv)
Horizon Capital 2000 Limited	Scotland	Ordinary	100	(iv)
Uberior Trading Limited	Scotland	Ordinary	100	(iv)
Housing Growth Partnership Limited	England and Wales	Ordinary	100	(vi)

**Registered office**

- (i) One Vine Street, London, W1K 0AH
- (ii) 41/F, Bank of China tower, 1 Garden Road, Central, Hong Kong
- (iii) Sanne Group, 13 Castle Street, St Helier, JE4 5UT
- (iv) The Mound, Edinburgh, EH1 1YZ
- (v) EY, Atria One, 144 Morrison Street, Edinburgh, EH3 8EB
- (vi) 25 Gresham Street, London, EC2V 7HN

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2017**

**16. Future accounting developments**

The following pronouncements are not applicable for the year ended 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Company.

<b>Pronouncement</b>	<b>Nature of change</b>	<b>IASB effective date</b>
IFRS 9 Financial Instruments <sup>1</sup>	<p>IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods.</p> <p><b>Classification and measurement</b></p> <p>IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.</p> <p><b>Impairment</b></p> <p>IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.</p> <p>The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted</p>	Annual periods beginning on or after 1 January 2018.
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2018 (including IFRS 2 Share-based Payment and IAS 40 Investment Property) and effective 1 January 2019 (including IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). These revised requirements are not expected to have a significant impact on the Company.	

<sup>(1)</sup> At the date of this report, these pronouncements are awaiting EU endorsement.