UBERIOR INVESTMENTS LIMITED
(FORMERLY KNOWN AS UBERIOR INVESTMENTS PLC)

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

MEMBER OF LLOYDS BANKING GROUP

Company Number: SC073998

Directors
K M Bothwell
A J Cumming
S Shelley
P A Shepherd

Secretary
Lloyds Secretaries Limited

Registered office
Level 1
Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

Independent auditors
PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Bankers
Bank of Scotland plc
Head Office
The Mound
Edinburgh
EH1 1YZ

DIRECTORS' REPORT
For the year ended 31 December 2012

The Directors, as listed on page 2, submit their report and audited financial statements of Uberior Investments Limited ('the Company') for the year ended 31 December 2012.

On 16th January 2012 the Company re-registered as a private limited company and ceased to be a public limited company.

Incorporation
The Company was incorporated on 27 February 1981.

Principal activity
The Company operates as an investment holding company and there has been no change of activity during the year.

Business review
During the year the Company disposed of £173,086,000 of fund investments and securities (2011: £89,586,000). Investment additions in the year totalled £85,045,000 (2011: £52,630,000).

The business is funded by the Company's immediate parent undertaking, Bank of Scotland plc.

Results and dividends
The profit after tax for the year is £49,664,000 (2011: £167,260,000). The Directors do not recommend the payment of a dividend in 2012 (2011: nil).

Future developments
The Company will continue to manage its existing commitments in the future.

Risk management
The key risks and uncertainties faced by the Company are managed within the framework established for the Lloyds Banking Group plc Group of companies ('the Group'). Exposure to credit risk, market risk, interest rate risk, foreign exchange risk and equity risk arises in the normal course of the Company's business. These risks are discussed below and supplementary qualitative and quantitative information is provided in Note 20 to the Financial Statements.

Credit risk
A full credit assessment of the financial strength of each potential transaction and/or customer is undertaken, awarding an internal risk rating. Internal ratings are reviewed regularly.

Interest rate risk
Financial assets which are income earning have both fixed and variable interest rates. The financial liabilities which fund these investments are facilities provided by another Lloyds Banking Group company with interest being charged at agreed rates within the Group. Consequently, the Company is exposed to some interest rate risk.

Foreign exchange risk
Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The Company follows Lloyds Banking Group policy in ensuring that all foreign currency investments are hedged with borrowings in the same currency. The currencies giving rise to the Company's foreign exchange risk during the year were Euros and US Dollars. Further information about the Company's sensitivity to changes in foreign exchange rates is set out in Note 20 to the Financial Statements.

Equity risk
Equity risk exists from the Company's exposure to listed and unlisted equity shares. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is provided in Note 21 to the Financial Statements.

Liquidity risk
Liquidity risk is managed centrally within the Group and continues to remain a key area of focus for the Group.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2012

Going concern
As set out in Note 3 - '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' indemnities
The Directors have the benefit of a contract of indemnity which constitutes a 'qualifying third party indemnity provision'. This contract was in force during the financial year and remains in force.

Performance
The Company's profit before tax for the financial year is £71,866,000 (2011: £165,996,000).

During the year the Company recognised dividends from investments in subsidiaries of £5,790,000 (2011: £140,112,000).

During the year the Company disposed of a number of investments, as part of a wider transaction within Lloyds Banking Group, which generated an overall profit on disposal of £44,982,000 (2011: £35,647,000). The Company aims to hold each investment for the appropriate time period which will maximise returns to the Lloyds Banking Group and therefore profits recognised on disposals can fluctuate year on year.

The Balance Sheet shows a net asset position of £151,978,000 compared to net assets of £160,553,000 in 2011. This is attributable to the total comprehensive income recognised for the year.

The Company performance is considered in respect of the underlying investment portfolio performance and valuations. These are reviewed through the relevant committees of the Lloyds Banking Group plc Equity Governance Framework.

Post balance sheet events
Refer to Note 24 to the Financial Statements for detail on post balance sheet events.

Directors and their interests
The Directors at the date of this report are as stated on page 2. The Directors dates of appointment or resignation during the year, or subsequent to the year end, are as follows:

Director	Date of Appointment	Date of Resignation
D W Godfrey	-	16 January 2012
S Shelley	1 February 2012	-
G T Tate	-	6 February 2012
J Britton	-	24 June 2012
K M Bothwell	2 July 2012	-
A W Géczy	-	16 January 2013
P A Shepherd	11 July 2013	-

The other Director served throughout the year. No Director had any interest in any material contract or arrangement with the Company during or at the end of the year.

Independent Auditors and disclosure of information to Independent Auditors
PricewaterhouseCoopers LLP are deemed to be reappointed as auditors under Section 487(2) of the Companies Act 2006.

Each Director in office at the date of this report confirms that:
- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself/herself 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.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2012

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 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the Report of the Directors is approved:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board,

Karen Bothwell
Director

26 September 2013

Company Number: SC073998

Registered Office: Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR INVESTMENTS LIMITED

We have audited the Financial Statements of Uberior Investments Limited for the year ended 31 December 2012 which comprise of the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, 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 (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 5 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

30 September 2013

INCOME STATEMENT
For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Dividends from investments in subsidiaries		**5,790**	140,112
Valuation gains on investments	*13*	**16,204**	3,291
Investment income	*4*	**10,654**	10,834
		32,648	154,237
Profit on disposal of investments		**44,982**	35,647
Amounts written back to/(off) jointly controlled entities	*11*	**3**	(3)
Amounts written off associates	*10*	**(1)**	-
Amounts written off investments	*13*	**(3,480)**	(14,592)
Total amounts written off		**(3,478)**	(14,595)
Administrative expenses	*6*	**(1,924)**	(3,877)
Other income	*5*	**1,475**	2,001
Other expenses	*7*	**(6)**	(112)
Net other income		**1,469**	1,889
Operating profit before financing costs		**73,697**	173,301
Financing costs	*8*	**(1,831)**	(7,305)
Profit before tax		**71,866**	165,996
Income tax (charge)/credit	*9*	**(22,202)**	1,264
Profit after tax for the year		**49,664**	167,260
Attributable to:			
Equity shareholder		**49,664**	167,260
Profit for the year		**49,664**	167,260

The notes on pages 12 to 38 are an integral part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the year		**49,664**	167,260
Other comprehensive income:			
Movements in available-for-sale financial assets:			
- changes in fair value		**(28,301)**	23,953
- amounts recognised in the income statement		**(47,381)**	(23,128)
		(75,682)	825
Currency translation difference before tax		**(3,140)**	(2,219)
Movements in deferred tax	*15*	**20,583**	3,987
Other comprehensive (loss)/income for the year, net of tax		**(58,239)**	2,593
Total comprehensive (loss)/income for the year		**(8,575)**	169,853
Attributable to:			
Equity shareholder		**(8,575)**	169,853
Total comprehensive (loss)/income for the year		**(8,575)**	169,853

The notes on pages 12 to 38 are an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2012

	Note	2012 £'000	2011 £'000
Assets			
Interests in associates	*10*	**3**	4
Investments in subsidiary undertakings	*12*	**42,954**	32,954
Investments	*13*	**250,163**	420,614
Total non-current assets		**293,120**	453,572
Bank balances	*16*	**360**	2,719
Income tax asset	*9*	**-**	157
Total current assets		**360**	2,876
Total assets		**293,480**	456,448
Equity			
Share capital	*17*	**2,000**	2,000
Available-for-sale reserve		**1,753**	59,992
Retained earnings		**148,225**	98,561
Total equity		**151,978**	160,553
Liabilities			
Deferred tax liability	*15*	**16,756**	18,465
Total non-current liabilities		**16,756**	18,465
Bank overdraft	*16*	**60,649**	88,805
Interest-bearing loans and borrowings	*18*	**58,354**	186,259
Current tax liability	*9*	**3,255**	-
Trade and other payables	*19*	**2,488**	2,366
Total current liabilities		**124,746**	277,430
Total liabilities		**141,502**	295,895
Total equity and liabilities		**293,480**	456,448

The notes on pages 12 to 38 are an integral part of these financial statements.

Approved by the Board of Directors and signed on its behalf by:

Karen Bothwell
Director
26 September 2013

Company Number: SC073998

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Share capital £'000	Available-for-sale reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2011	2,000	57,399	(68,699)	(9,300)
Comprehensive income				
Profit for the year	-	-	167,260	167,260
Other comprehensive income	-	2,593	-	2,593
Total comprehensive income	-	2,593	167,260	169,853
Balance at 31 December 2011	**2,000**	**59,992**	**98,561**	**160,553**
Comprehensive income				
Profit for the year	**-**	**-**	**49,664**	**49,664**
Other comprehensive loss	**-**	**(58,239)**	**-**	**(58,239)**
Total comprehensive income/(loss)	-	**(58,239)**	**49,664**	**(8,575)**
Balance at 31 December 2012	**2,000**	**1,753**	**148,225**	**151,978**

The notes on pages 12 to 38 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Operating profit before financing costs		**73,697**	173,301
Profit on disposal of investments		**(44,982)**	(35,647)
Amounts written off investments	*13*	**3,480**	14,592
Amounts written off investments in jointly controlled entities	*11*	**(3)**	3
Amounts written off associates	*10*	**1**	-
Increase in amounts due to related parties	*19*	**-**	385
Exchange rate movement		**-**	(470)
Fair value gains through income statement	*21*	**(16,204)**	(3,292)
Non-cash investment income		**(1,131)**	-
Decrease in trade and other receivables		**-**	325
Increase/(decrease) in trade and other payables		**13**	(1,558)
Interest received	*4*	**(2)**	-
Cash generated from operations		**14,869**	147,639
Interest received		**2**	-
Interest paid		**(2,360)**	(18,779)
Amounts received in respect of income taxes		**84**	10,761
Net cash from operating activities		**12,595**	139,621
Cash flows from investing activities			
Proceeds from sale of investments and interests		**201,323**	125,233
Acquisition of shares in subsidiary undertaking	*12*	**(10,000)**	-
Acquisition of investments and interests	*13*	**(56,351)**	(52,630)
Net cash from investing activities		**134,972**	72,603
Cash flows from financing activities			
Decrease in borrowings		**(121,260)**	(49,674)
Redemption of term deposits		**-**	22,402
Exchange rate movement		**-**	7,087
Net cash used in financing activities		**(121,260)**	(20,185)
Net increase in cash and cash equivalents		**26,307**	192,039
Effect of exchange rate fluctuations on cash held		**(510)**	(306)
Cash and cash equivalents at 1 January		**(86,086)**	(277,819)
Cash and cash equivalents at 31 December 2012	*16*	**(60,289)**	(86,086)

The notes on pages 12 to 38 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

1. Significant accounting policies

Uberior Investments Limited ('the Company') is a company incorporated and domiciled in Scotland.

The financial statements were authorised for issue by the Directors on 26 September 2013.

(a) Financial statements

The financial statements of Uberior Investments Limited comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Statement of Cash Flows together with the related notes to the financial statements. The financial statements are presented in Sterling which is the Company's functional and presentation currency.

(b) Statement of compliance

The 2012 statutory financial statements set out on pages 7 to 38 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. Consequently, the financial statements comply with International Financial Reporting Standards.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

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

(c) Basis of preparation

The financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair value: financial instruments classified as available-for-sale ("AFS"), financial instruments held for sale and financial instruments designated at fair value through profit or loss.

The Company has adopted the following new standards and amendments to standards which became effective for financial years beginning on or after 1 January 2012. Neither of these standards or amendments had a material impact on these financial statements.

- *Disclosures – Transfers of Financial Assets (Amendments to IFRS 7).* Requires disclosures in respect of all transferred financial assets that are not derecognised in their entirety and transferred assets that are derecognised in their entirety but with which there is continuing involvement.
- *Deferred Tax: Recovery of Underlying Assets (Amendment to IAS 12).* Introduces a rebuttable presumption that investment property measured at fair value is recovered entirely through sale and that deferred tax in respect of such investment property is recognised on that basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

1. Significant accounting policies (continued)

(d) IFRS and IFRIC not yet applied

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2012 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.

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 1 Presentation of Financial Statements – '*Presentation of Items of Other Comprehensive Income*'	Requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassified to profit or loss subsequently.	Annual periods beginning on or after 1 July 2012.
Amendments to IFRS 7 *Financial Instruments: Disclosures – 'Disclosures– Offsetting Financial Assets and Financial Liabilities'*	Requires an entity to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's balance sheet.	Annual and interim periods beginning on or after 1 January 2013.
IFRS 10 *Consolidated Financial Statements*	Supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities* and establishes the principles for when the Company controls another entity and therefore is required to consolidate the other entity in the Company's financial statements.	Annual periods beginning on or after 1 January 2013.
IFRS 12 *Disclosure of Interests in Other Entities*	Requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.	Annual periods beginning on or after 1 January 2013.
IFRS 13 Fair Value Measurement	Defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements.	Annual and interim periods beginning on or after 1 January 2013.
Amendment to IAS 32 *Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'*	Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement.	Annual periods beginning on or after 1 January 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

1. Significant accounting policies (continued)

(d) IFRS and IFRIC not yet applied (continued)

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments*[1]	Replaces those parts of IAS 39 *Financial Instruments: Recognition and Measurement* relating to the classification, measurement and derecognition of financial assets and liabilities. IFRS 9 requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments and eliminate the available-for-sale financial asset and held-to-maturity investment categories in IAS 39. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2015.

[1] At the date of this report, this pronouncement is awaiting EU endorsement. IFRS 9 is the initial stage of the project to replace IAS 39. Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting, as well as a reconsideration of classification and measurement. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39.

(e) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined.

Translation differences on non-monetary financial instruments classified as available-for-sale financial assets are included in the available-for-sale reserve in equity, unless designated in a fair value hedging relationship where it is recognised in the Income Statement together with foreign currency translation differences on the hedging instrument.

(f) Hedge accounting

The Company applies fair value hedge accounting to hedge foreign exchange exposure on the impaired historic cost of available-for-sale equity instruments. At the inception of a hedging relationship, the Company documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Company also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments that are used in hedging transaction are highly effective in offsetting the changes in fair value of the hedged items attributable to the hedged risks.

Foreign currency gains and losses on the portfolio of interest-bearing term loans that are designated and qualify as fair value hedges are recorded in the Income Statement, together with the gain or loss on the hedged portion of the available-for-sale asset. The net hedge ineffectiveness is recognised in the Income Statement in 'Financing costs'.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

1. Significant accounting policies (continued)

(g) Investments

Jointly controlled entities and associates
Jointly controlled entities are entities over which the Company has joint control under a contractual arrangement with other parties. Associates are entities over which the Company has significant influence, but not control over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control over those policies.

The Company records such investments at historic cost less impairments.

The Company utilises the venture capital exemption for investments where significant influence or joint control is present and the business unit operates as a venture capital business. These investments are designated at initial recognition at fair value through profit and loss.

Investments in subsidiary undertakings
Subsidiaries include entities over which the Company has the power to govern the financial and operating policies which 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. Details of the principal subsidiaries are given in Note 12 to the Financial Statements. Subsidiaries comprise equity investments in, and capital contributions to, subsidiary entities. These are carried at cost less impairment provisions.

Investments in debt and equity securities
Debt securities for which there is no active market are classified as loans and receivables. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the balance sheet at amortised cost using the effective interest rate method less provision for impairment. Income on debt securities is recognised on an effective interest rate basis (see Note 1(n)) where it can be reliably estimated and recognised upon receipt where it cannot be reliably measured and recorded as investment income in the income statement.

Financial instruments are classified at fair value through profit or loss where they are derivatives such as options or warrants, or where they are designated at fair value through profit or loss by management. Financial assets at fair value through profit or loss are designated as such by management where they are managed as venture capital investments and evaluated on the basis of their fair value upon initial recognition. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise they are classified as non-current. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial instruments measured at fair value through profit or loss are carried on the balance sheet at fair value. Any gains and losses arising from change in fair value are recognised in the income statement within valuation gains/losses on investments in the period in which they occur.

All other investment securities are classified as available-for-sale. They are initially recognised at fair value plus directly related incremental transaction costs and subsequently carried on the balance sheet at fair value. Unrealised gains and losses arising from changes in the fair values are recognised in the statement of other comprehensive income and accumulated in the Available-for-sale reserve, until the financial asset is either sold or matures, at which time the previously unrecognised gains and losses are reclassified from other comprehensive income to other operating income in the Income Statement. Impairment losses are recognised immediately in the Income Statement as impairment on investment securities. Income from available-for-sale assets is recognised in the Income Statement within Investment Income in the period in which they occur.

Investments held for sale
Investments are classified as assets held for sale continue to be measured in accordance with their IAS 39 classification when their carrying amount is likely to be recovered principally through a sale transaction and a sale is considered to be highly probable.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

1. Significant accounting policies (continued)

(h) Financial assets

(i) Classification

The Company determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired. The Company has classified its financial assets into the following categories: fair value through profit and loss, available-for-sale financial assets and loans and receivables.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise of 'Investments in debt securities', 'Trade and other receivables' and 'Cash and cash equivalents' in the balance sheet (Notes 1(g),(i),(j)).

Fair value through profit or loss
Financial assets at fair value through profit and loss are financial assets held for trading or where they are designated as at fair value through profit and loss by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months. Otherwise they are classified as non-current. The Company's financial assets at fair value through profit and loss comprise 'Investments in equity securities' in the balance sheet (Note 1(g)).

Available-for-sale
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Company's available-for-sale assets comprise 'Investments in equity securities' in the balance sheet (Note 1(g)).

(ii) Recognition and measurement
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method less provision for impairment. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value.

(i) Trade and other receivables

Trade and other receivables are classified as current assets if collection is due within one year or less. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses.

(j) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

1. Significant accounting policies (continued)

(k) Financial liabilities

(i) Classification
The Company determines the classification of its financial liabilities at initial recognition. The classification depends on the purpose for which the financial liabilities were issued. The Company has classified its financial liabilities in the following category: other financial liabilities.

Other financial liabilities
Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the reporting date. These are classified as non-current liabilities. The Company's other financial liabilities comprise of 'Interest-bearing loans and borrowings' and 'Trade and other payables' in the balance sheet (Notes 1(l) and (m)).

(ii) Recognition and measurement
Other financial liabilities are recognised when the Company becomes party to the contractual provisions of the financial instrument. A financial liability is removed from the balance sheet when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Interest-bearing loans and borrowings are derecognised from the balance sheet upon settlement of all monies due in connection with such borrowings or forgiveness by the lender of all indebtedness.

(m) Trade and other payables

Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Share capital

Ordinary shares are classified as equity. Called up share capital is determined using the nominal value of shares that have been issued.

(o) Revenue recognition

Fees and commission income are recognised in the Income Statement within 'Other income' as the related service is provided.

Dividend income is recognised when the right to receive payment is established and recognised in the income statement as 'Investment income'.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'Profit on disposal of investments' in the Income Statement.

Interest income is recognised in the Income Statement as it accrues, using the effective interest method.

(p) Management fees

Management fees payable to funds are included as an expense within administrative expenses. Fees payable are charged to the Income Statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

1. Significant accounting policies (continued)

(q) Impairment of assets

Financial assets
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost – the criteria that the Company uses to determine that there is objective evidence of an impairment loss include:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including adverse changes in the payment status of borrowers in the portfolio; and national or local economic conditions that correlate with defaults on the assets in the portfolio.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event after the impairment was recognised, the previously recognised impairment loss is reversed in the income statement.

Equity securities acquired in exchange for loans in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of equity securities. Where control is obtained over an entity as a result of the transaction, the entity is accounted for as a subsidiary; where the Company has significant influence over an entity as a result of the transaction, the investment is accounted for as an associate entity unless the venture capital exemption is utilised (see Accounting policy Note 1 (g)).

Financial assets designated as available-for-sale – in addition to the criteria noted above, in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the asset below its cost, is also evidence that the assets are impaired.

When a decline in the fair value of a financial asset classified as available-for-sale has previously been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement) is removed from other comprehensive income and recognised in the Income Statement. If, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through other comprehensive income.

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. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

1. Significant accounting policies (continued)

(q) Impairment of assets (continued)

Non-financial assets (continued)
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.

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.

At each Balance Sheet date an assessment is undertaken to determine if there is any indication of impairment of subsidiaries. This assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the subsidiary. If there is an indication of impairment, an estimate of the recoverable amount is made. If the carrying value exceeds the recoverable amount then a provision for subsidiary undertakings impairment is made to reduce the carrying value to the recoverable amount. In respect of investments in subsidiaries this assessment can include receiving factors such as the solvency, profitability and cash flows generated by the subsidiary.

(r) Financing costs

Financing costs comprise interest payable on borrowings, net ineffectiveness on fair value hedge and foreign exchange gains and losses in relation to balances not included within the fair value hedge, for example current accounts. Interest payable is recognised in the Income Statement using the effective interest rate method. The effective interest rate is established on initial recognition of the financial liability and is not subsequently revised.

(s) Taxation

Current income tax which is payable/receivable on taxable profits/losses is recognised as an expense/credit in the period in which the profits/losses arise. The current income tax charge/credit is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the difference will not reverse in the foreseeable future. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. Deferred tax related to fair value re-measurement of available-for-sale investments which are charged or credited to the statement of comprehensive income, is also credited or charged directly to equity and is subsequently reclassified to the income statement together with the deferred gain or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

1. Significant accounting policies (continued)

(s) Taxation (continued)

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(t) Offsetting financial instruments

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

2. Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions 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.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant judgements made by management in applying Company's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Company's results and financial position, are discussed below.

Critical judgements in applying the entity's accounting policies

The critical judgements that have been made in the process of applying the Company's accounting policies are addressed below.

(a) Designation of financial instruments

The Company has classified its financial instruments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. In some instances the classification is prescribed whilst in others the Company is able to exercise judgement in determining the classification as follows:

- Non-derivative financial assets, other than those held for trading, where there is no active market and which have fixed or determinable payments are classified as 'loans and receivables';
- In addition the venture capital exemption is taken for investments where significant influence or joint control is present and the investing area operates as a venture capital business. These investments are designated 'at fair value through profit or loss'. The policy is applied consistently across the Company's portfolios. Judgement is applied when determining whether or not a business area operates as a venture capital business. The judgement is based on consideration of whether, in particular, the primary business activity is investing for current income, capital appreciation or both; whether the investment activities are clearly and objectively distinct from any other activities of the Company; and whether the investee operates as a separate business autonomous from the Company;
- The Company has chosen not to designate any financial assets as 'held to maturity';
- A financial asset acquired principally for the purpose of selling in the short term and derivatives are classified as at 'fair value through profit and loss';
- All other financial assets are classified as 'available-for-sale'; and
- All other financial liabilities are classified as 'at amortised cost'.

The accounting treatment of these financial instruments is set out in the relevant accounting policy.

Critical accounting estimates and assumptions

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 addressed below.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

2. Critical accounting estimates and judgements (continued)

(b) Impairment of investments

As explained in the accounting policy, investment securities are continually reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset and, in the case of debt securities, non-receipt of due interest or principal repayment, a breach of covenant within the security's terms and conditions or a measurable decrease in the estimated future cash flows since their initial recognition.

The disappearance of active markets, declines in market value and ratings downgrades do not in themselves constitute objective evidence of impairment and, unless a default has occurred on a debt security, the determination of whether or not objective evidence of impairment is present at the balance sheet date requires the exercise of management judgement.

In determining whether an impairment loss has been incurred in respect of an available-for-sale financial asset, the Company performs an objective review of the current financial circumstances and future prospects of the issuer and, in the case of equity shares, considers whether there has been a significant or prolonged decline in the fair value of that asset below its cost. This consideration requires management judgement. Among factors considered by the Company is whether the decline in fair value is a result of a change in the quality of the asset or a downward movement in the market as a whole.

(c) Fair values

Management judgement is required in determining the categorisation, in accordance with IFRS 7, of the Company's financial instruments that are carried at fair value. Financial instruments categorised as level 1 are valued using quoted market prices and therefore minimal judgement is applied in determining fair value. However, the fair value of financial instruments categorised in level 2 and level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. These require management judgement and therefore contain significant estimation uncertainty. In particular significant judgement is required by management in determining appropriate assumption to be used for level 3 financial instruments. At 31 December 2012 the Company classified £218,569,000 of financial assets (2011: £398,115,000) as level 3 financial instruments.

The largest asset class classified as level 3 is the Company's AFS assets. Venture Capital investments are valued using International Private Equity and Venture Capital (IPEV) Guidelines which require significant management judgement in determining appropriate earnings multiples to be applied in determining fair value. Unlisted equity investments are valued using a number of different techniques which require management to select the most appropriate assumptions, including earnings multiples, valuations to net assets, and estimated future cash flows.

(d) Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, when assessing the extent to which deferred tax assets should be recognised consideration is given to the timing, nature and level of future taxable income. The recognition of deferred tax assets relating to tax losses carried forward relies on profit projections and taxable profit forecasts prepared by management, where a number of assumptions are required based on the levels of growth in profits and the reversal of deferred tax balances.

3. Going concern – Principles underlying going concern assumption

The Company is reliant on funding provided by Bank of Scotland plc which is a subsidiary of Lloyds Banking Group plc. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

4. Investment income	2012 £'000	2011 £'000
Available-for-sale financial assets	**9,505**	10,025
Debt securities held as loans and receivables	**1,147**	725
Interest received	**2**	84
	10,654	10,834

5. Other income	2012 £'000	2011 £'000
Agency fees	**1,475**	1,980
Monitoring fees	**-**	21
	1,475	2,001

6. Administrative expenses	2012 £'000	2011 £'000
Management fees	**1,924**	3,877

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

During 2011 G T Tate was employed by a fellow group undertaking and his services to the Company were considered to be incidental to his other responsibilities with Lloyds Banking Group. Accordingly the above includes no emoluments in respect of his services.

The emoluments of the remaining Directors are paid by a fellow group undertaking on behalf of the ultimate parent, Lloyds Banking Group plc, which makes no recharge to the Company. The Directors are also Directors of a number of other subsidiaries of Lloyds Banking Group plc and are also substantially engaged in the managing of their respective business areas within Commercial Banking Division of Lloyds Banking Group plc. Given this, it is not possible to make an accurate apportionment of Directors emoluments in respect of the services to each of the subsidiaries. Accordingly, the above includes no emoluments in respect of the Directors.

The total emoluments of the Directors are included in the financial statements of the ultimate parent company, Lloyds Banking Group plc.

7. Other expenses	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**-**	45
Other expenses	**6**	67
	6	112

For the year ended 31 December 2012, the audit fee has been accrued and paid centrally by the Company's ultimate parent, Lloyds Banking Group plc, which makes no recharge to the Company.

For the year ended 31 December 2011, the audit fee was agreed and paid centrally by the Company's intermediate parent, Bank of Scotland plc. The balance shown of £45,000 represents the amount internally allocated to the Company in relation to this fee for the year ended 31 December 2011.

8. Financing costs	Note	2012 £'000	2011 £'000
Interest expense		**1,687**	7,026
Foreign exchange:			
Net ineffectiveness on fair value hedge	*20*	**(289)**	(233)
Other		**433**	512
Total foreign exchange		**144**	279
Net financing costs		**1,831**	7,305

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

9. Taxation

	2012 £'000	2011 £'000
Current tax		
Current year	3,798	498
Overseas tax	-	2
Adjustments in respect of prior years	(470)	(25)
	3,328	475
Deferred tax		
Deferred tax charge for the year	18,813	474
Deferred tax credit in respect of prior years	660	(2,213)
Impact of change in tax rate	(599)	-
	18,874	(1,739)
Total income tax charge/(credit)	22,202	(1,264)

Reconciliation of effective tax rate

The income tax charge is higher (2011: tax credit - higher) than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%) applied to the profit for the year due to the following factors:

	2012 £'000	2011 £'000
Profit before tax	71,866	165,996
Income tax using the corporation tax rate of 24.5% (2011: 26.5%)	17,607	43,989
UK dividends received not taxable	(415)	(37,215)
Impact of change in rate of corporation tax	(599)	603
Entertainment and other disallowed items	1	-
Foreign exchange movements	-	2
Book gains covered by indexation / SSE	-	(452)
Amounts written off fixed asset investments	-	3,041
Adjustments for prior years	190	(2,238)
Capital gains exempt / sheltered by losses	4,579	-
(Gains)/losses which cannot be recognised for tax purposes	-	(8,994)
Tax losses where no deferred tax recognised	839	-
Total income tax (credit)/charge	22,202	(1,264)

The current tax liability of £3,255,000 (2011: £157,000 income tax asset) represents the amount of income taxes payable in respect of current and prior years.

10. Interests in associates

	2012 £'000	2011 £'000
At 1 January	4	4
Impairments	(1)	-
At 31 December	3	4

During 2012 an amount of £500 was written off with respect to interests in associates (2011: nil).

The Company holds interests in other investments where significant influence would require them to be treated as associates had the venture capital exemption not been claimed. These are accounted for as fair value through profit or loss and are disclosed in Note 13 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

11. Interests in jointly controlled entities

	2012 £'000	2011 £'000
At cost 1 January	-	4
Disposals	(3)	(1)
Amounts written back/(written off) investments in jointly controlled entities	3	(3)
At cost 31 December	-	-

The Company holds interests in other investments where joint control would require them to be treated as joint ventures had the venture capital exemption not been claimed. These are accounted for as fair value through the profit or loss and are disclosed in Note 13 to the Financial Statements.

12. Investments in subsidiary undertakings

	2012 £'000	2011 £'000
At cost 1 January	32,954	32,954
Additions	10,000	-
At cost 31 December	**42,954**	32,954

Details of the subsidiary undertakings are noted below.

The Company holds 100% of the ordinary shares in each of the companies listed:

Name of company	Principal business	Reference date	Country of incorporation
Above Bar (Southampton) Limited	Property Letting	31 December	UK
Tantallon Investments Inc	Investment	31 December	USA
Bank of Scotland Capital Funding LP	Debt Issuance	31 December	Jersey
HBOS Capital Funding LP	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding No 1 LP	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding No 2 LP	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding No 3 LP	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding No 4 LP	Investment / Debt Issuance	31 December	Jersey
Uberior Fund Investments Limited	Investment	31 December	UK
Uberior Infrastructure Investments Limited	Investment	31 December	UK
Uberior Properties (2002) Limited	In liquidation	31 December	UK
Uberior Ventures Limited	Investment	31 December	UK
BOS Edinburgh No. 1 Limited	Investment	31 December	UK
Bosint Investments Limited	Investment	31 December	Jersey
Uberior Fund Manager Limited	Fund Administration	31 December	UK
Uberior Energy Investments Limited	Investment	31 December	UK
Uberior ISAF CIP Nominee Limited	Nominee	31 December	UK
Uberior Fund Holdings Limited	Fund Administration	31 December	UK
Bank of Scotland Insurance Services Limited	Insurance	31 December	UK
Prestonfield Investments Limited	Investment	31 December	UK
Uberior Equity Limited	Investment	31 December	UK

The proportion of voting rights in the subsidiary undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

13. Investments

	2012 £'000	2011 £'000
Investments		
Debt securities	**31,594**	18,432
Equity securities	**218,569**	402,182
	250,163	420,614
Income statement impairment charge in the year:		
Debt securities	**103**	(2,216)
Equity securities	**(3,583)**	(12,376)
	(3,480)	(14,592)

(a) Debt securities

The movement in debt securities classified as loans and receivables can be summarised as follows:

	2012 £'000	2011 £'000
Gross debt securities		
As at 1 January	**75,524**	78,016
Exchange translation	**721**	-
Additions	**18,694**	644
Disposals	**(9,766)**	(3,136)
As at 31 December	**85,173**	75,524
Provision for impairment		
As at 1 January	**57,092**	57,531
(Decrease)/increase in provisions	**(103)**	2,216
Release of provisions on disposal	**(3,410)**	(2,655)
As at 31 December	**53,579**	57,092
Net debt securities		
As at 31 December	**31,594**	18,432

The Company assesses all impairments individually. Included in debt securities are advances individually determined to be impaired with a gross amount before impairment allowances of £53,579,000 (2011: £58,131,000). The remaining gross value is neither past due nor impaired.

(b) Equity securities

The movement in equity securities can be summarised as follows:

For the year ended 31 December 2012	Designated at fair value through profit or loss £'000	Available for sale £'000	Total £'000
At 1 January 2012	64,103	338,079	402,182
Exchange translation	-	(10,176)	(10,176)
Movements in available-for-sale equity securities	-	(75,682)	(75,682)
Changes to fair value	16,204	-	16,204
Additions	484	55,867	56,351
Disposals	(405)	(166,322)	(166,727)
Amounts written off	-	(3,583)	(3,583)
As at 31 December 2012	80,386	138,183	218,569

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

13. Investments (continued)

For the year ended 31 December 2011	Designated at fair value through profit or loss £'000	Available-for-sale £'000	Total £'000
At 1 January 2011	60,812	320,229	381,041
Exchange translation	-	(7,469)	(7,469)
Movements in available-for-sale financial assets	-	16,736	16,736
Changes to fair value	3,291	-	3,291
Additions	-	51,389	51,389
Disposals	-	(30,430)	(30,430)
Amounts written off	-	(12,376)	(12,376)
As at 31 December 2011	64,103	338,079	402,182

The Company has a number of significant holdings that are accounted for as fair value investments. If these holdings were accounted for as associates the Company would have recognised additional profit for the year of £3,340,000 (2011: £27,061,970) and a share of net assets of £145,458,000 as at 31 December 2012 (2011: £182,612,530). Significant holdings which are material to the Company are disclosed below:

Company	Place of Business	% of Capital Held
BoS Mezzanine Partners Fund, L.P.	7 Melville Crescent, Edinburgh EH3 7JA	49.99%
Cavendish	26 New Street, St Helier, Jersey JE2 3RA	30.00%

14. Investments held for sale

The movement in investments held for sale can be summarised as follows:

	Available-for-sale £'000	Total £'000
Opening Balance as at 1 Jan 2011	75,326	75,326
Additions	597	597
Exchange translation	(1,338)	(1,338)
Movements in available-for-sale reserve	(15,911)	(15,911)
Disposals	(58,674)	(58,674)
Balance as at 31 Dec 2011	-	-

The investments held for sale at the start of 2011 related to a specific portfolio of investments identified for disposal by management. These were actively marketed during 2010, and a sale was considered to be highly probable at 31 December 2010. During 2011 all of the investments in this portfolio were disposed of.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

15. Deferred tax asset and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	**2012**	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Other	**3,917**	18,899	**-**	-	**3,917**	18,899
Available-for-sale equities	**-**	-	**(5,448)**	(26,031)	**(5,448)**	(26,031)
Designated at fair value through profit or loss equities	**-**	-	**(15,225)**	(11,333)	**(15,225)**	(11,333)
Total	**3,917**	18,899	**(20,673)**	(37,364)	**(16,756)**	(18,465)

Movement in temporary differences in the year	**Balance at 1 Jan 2012 £'000**	**Recognised in income £'000**	**Recognised in equity £'000**	**Balance at 31 Dec 2012 £'000**
Other	**1,023**	**(759)**	**-**	**264**
Impairments on available-for-sale equities	**17,876**	**(14,223)**	**-**	**3,653**
	18,899	**(14,982)**	**-**	**3,917**
Available-for-sale equities	**(26,031)**	**-**	**20,583**	**(5,448)**
Designated at fair value through profit or loss equities	**(11,333)**	**(3,892)**	**-**	**(15,225)**
	(37,364)	**(3,892)**	**20,583**	**(20,673)**
Total	**(18,465)**	**(18,874)**	**20,583**	**(16,756)**

Movement in temporary differences in the prior year	Balance at 1 Jan 2011 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 31 Dec 2011 £'000
Other	-	1,023	-	1,023
Impairments on available-for-sale equities	18,415	(539)	-	17,876
	18,415	484	-	18,899
Available-for-sale equities	(30,018)	-	3,987	(26,031)
Designated at fair value through profit or loss equities	(12,588)	1,255	-	(11,333)
	(42,606)	1,255	3,987	(37,364)
Total	(24,191)	1,739	3,987	(18,465)

On 21 March 2012, the Government announced that the corporation tax rate applicable from 1 April 2012 would be 24 per cent. This change passed into legislation on 26 March 2012. In addition, the Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24 per cent to 23 per cent with effect from 1 April 2013. The change in the main rate of corporation tax from 25 per cent to 23 per cent has resulted in a reduction in the Company's net deferred tax liability at 31 December 2012 of £1,475,000, comprising the £599,000 credit included in the income statement and a £876,000 credit included in equity.

Deferred tax assets of £15,160,000 (2011: £32,289,000) relating to assets carried at amortised cost or fair value have not been recognised on the basis that the Company has insufficient forecast taxable profits to recover the asset in future periods. Once crystallised following the disposal of the assets, capital losses can be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

16. Cash and cash equivalents	2012 £'000	2011 £'000
Bank balances	**360**	2,719
Bank overdraft	**(60,649)**	(88,805)
Cash and cash equivalents	**(60,289)**	(86,086)

The bank overdraft is an interest free facility provided by another Group company and is repayable on demand.

17. Capital and reserves

Capital risk management
The distributable reserves of the Company are managed through Lloyds Banking Group plc Capital and Funding Policy in order to maximise capital efficiency within Lloyds Banking Group plc. Dividends are paid from reserves available for distribution to the parent undertaking as reported by the previously approved annual report and accounts according to parameters set out at a Lloyds Banking Group plc level so as to avoid any build up of reserve balances within the Company. Other reserves, such as those arising on the revaluation of assets classified as 'available-for-sale' that are recognised in other comprehensive income and accumulated in equity, are not managed as part of capital.

Share capital

Ordinary shares	2012 £'000	2011 £'000
In issue at 1 January and at 31 December – fully paid	**2,000**	2,000

At 31 December 2012, the authorised share capital comprised 100,000,000 Ordinary Shares of £1 each (2011: 100,000,000).

The holder of the Ordinary Shares is entitled to receive dividends as declared from time to time and is entitled to vote at meetings of the Company.

Available-for-sale reserve
The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised either through disposal or becomes impaired.

18. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see Note 20 to the Financial Statements.

	2012 £'000	2011 £'000
Current liabilities		
Current portion of unsecured bank loans	**58,354**	186,259

Terms and debt repayment schedule
The term loans and bank overdrafts are unsecured and represent amounts due to the Company's immediate parent undertaking, Bank of Scotland plc. The term loans fall due for repayment at various dates between 8 January 2013 and 28 February 2013. Interest is fixed on each loan at the date the loan is advanced to the Company, with rates ranging from 0.05% to 4.93% (2011: 0.26% to 4.93%).

The carrying amounts of the Company's borrowings denominated in Euros are £57,537,000 (2011: £178,897,000) and the carrying amounts denominated in US Dollars are £817,000 (2011: £7,362,000).

19. Trade and other payables	2012 £'000	2011 £'000
Accruals and deferred income	**1,150**	1,975
Amounts due to related parties	**1,338**	391
	2,488	2,366

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

20. 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. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management within the Lloyds Banking Group plc ('the Group') is carried out by a central treasury department (Group Treasury). Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group 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 of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business. The table below sets out the maximum exposure to credit risk at the balance sheet date.

	Note	**2012 £'000**	2011 £'000
On Balance Sheet:			
Investments - debt securities	*13(a)*	**31,594**	18,432
Bank balances	*16*	**360**	2,719
Due by related parties		**-**	3
		31,954	21,154

Debt securities in issue are carried at amortised cost adopting the impairment policy described within Note 1(q). Other exposures consist of intercompany balances with Lloyds Banking Group. Cash and cash equivalents representing the intercompany balances within Lloyds Banking Group plc have an internal credit rating of better than satisfactory.

The Company manages credit exposures using an internal credit rating system. A summary of definitions used in the internal credit rating system are as follows:

Good quality
Targeted return is ahead of anticipated return in original approved investment case.

Satisfactory quality
Targeted return is as originally planned during initial investment and is stable.

Below standard
Expected return on investment/exit proceeds is falling short of original planned or approved investment case.

The table below sets out the internal credit rating of net debt securities:

Internal rating	**2012 %**	2011 %
Internal rating – Good quality	**-**	-
Internal rating – Satisfactory quality	**100**	21
Internal rating – Below standard	**-**	79

The table below sets out the internal credit rating of net debt securities neither past due or impaired:

Internal rating	**2012 %**	2011 %
Internal rating – Good quality	**-**	-
Internal rating – Satisfactory quality	**100**	100
Internal rating – Below standard	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

20. 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 which reset at different times.

As the Company does not incur an interest charge in its bank overdraft and all term deposits, interest bearing loans and borrowings and debt securities have fixed interest rates, it is not considered to have any significant interest rate exposure.

Foreign exchange risk
Foreign exchange risk arises on investments, short term deposits and borrowings denominated in a currency other than Sterling. The currencies giving rise to this risk are US Dollars and Euros. The Company follows a policy of ensuring that all foreign currency investments are hedged with fixed interest term loans in the same currency. When there is impairment of available-for-sale non monetary assets the impairment is calculated in functional currency and therefore includes some of the impact of foreign currency translation.

The Company operates a fair value hedge to mitigate the foreign exchange risk arising from the impaired historic cost of available-for-sale equity instruments. This risk is hedged through a net portfolio of foreign currency fixed interest borrowings and deposits with £39,740,000 foreign currency fixed interest term loans being designated in a fair value hedge relationship at year end (2011: £186,259,000).

The fair value hedge results in foreign exchange gains or losses on hedged portion of available-for-sale assets being transferred out of available-for-sale reserve in equity and classified in Income Statement against the foreign exchange gain or loss of borrowings designated in a hedge relationship. The following net ineffectiveness on fair value hedge was recognised throughout the year:

	2012	2011
	£'000	£'000
Foreign exchange gain on hedging instrument	**7,328**	6,821
Foreign exchange loss on hedged item	**(7,039)**	(6,588)
Net ineffectiveness on fair value hedge	**289**	233

Equity risk
Equity risk exists from the Company's exposure to listed and unlisted equity shares. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is continually monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is set out below.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

20. Financial instruments (continued)

Equity risk (continued)
At the reporting date the carrying value of equity investments amounted to £218,569,000 (2011: £402,182,000). For investments carried at fair value through profit or loss changes in fair value would have a direct impact on profit before tax (PBT) whereas available-for-sale investments will be recognised in other comprehensive income through the available-for-sale reserve, unless the investment is deemed to be impaired and changes in fair value taken to the Income Statement. The table below sets out the sensitivity of PBT and the AFS reserve (before tax) to a 10% fall in fair value of equity investments as at the balance sheet date.

	2012 PBT £'000	**2012 AFS reserve £'000**	2011 PBT £'000	2011 AFS reserve £'000
Unlisted equity investments	**16,965**	**4,892**	10,249	29,969

The investment portfolio remains well diversified across major concentration indicators: fund manager, underlying investment sector and underlying investment geographic location.

The underlying investment sector has concentrations around Manufacturing (33%; 2011: 29%), Healthcare (6%; 2011: 15%) and Retail and Professional Services (32%; 2011: 15%), but is otherwise well diversified over a variety of investment sectors.

Geographic exposure is predominantly within the UK (98%; 2011: 84%) and there is an insignificant market concentration outside of the European Union at the fund manager level.

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 company subject to internal limits. Overall liquidity of the Lloyds Banking Group plc 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 2012	**Up to 1 mth £'000**	**1-3 mths £'000**	**3-12 mths £'000**	**1-5 yrs £'000**	**Total £'000**
On balance sheet					
Bank overdrafts	**60,649**	-	-	-	**60,649**
Interest-bearing loans and borrowings	**50,262**	**8,222**	-	-	**58,484**
Trade and other payables	**1,040**	-	**1,338**	-	**2,378**
Off balance sheet					
Undrawn financial commitments	**46,308**	-	**42,500**	**235,000**	**323,808**
Total liabilities	**158,259**	**8,222**	**43,838**	**235,000**	**445,319**

As at 31 December 2011	**Up to 1 mth £'000**	**1-3 mths £'000**	**3-12 mths £'000**	**1-5 yrs £'000**	**Total £'000**
On balance sheet					
Bank overdrafts	88,805	-	-	-	88,805
Interest-bearing loans and borrowings	12,451	125,992	49,855	-	188,298
Trade and other payables	1,170	-	391	-	1,561
Off balance sheet					
Undrawn financial commitments	94,875	-	30,000	240,000	364,875
Total liabilities	197,301	125,992	80,246	240,000	643,539

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

21. Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Note	Carrying amount 2012 £'000	Fair value 2012 £'000	Carrying amount 2011 £'000	Fair value 2011 £'000
Equity securities - available-for-sale	*13*	**138,183**	**138,183**	338,079	338,079
Equity securities designated at fair value through the profit and loss	*13*	**80,386**	**80,386**	64,103	64,103
Debt securities	*13*	**31,594**	**31,594**	18,432	18,432
Bank balances	*16*	**360**	**360**	2,719	2,719
Bank overdraft	*16*	**(60,649)**	**(60,649)**	(88,805)	(88,805)
Interest-bearing loans and borrowings	*18*	**(58,354)**	**(58,482)**	(186,259)	(186,572)
Trade and other payables	*19*	**(2,488)**	**(2,488)**	(2,366)	(2,366)
		129,032	**128,904**	145,903	145,590
Unrecognised losses			**(128)**		(313)

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

- **Equity securities**

  Fair value of listed securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

  Fair value of unlisted equity securities is calculated in accordance with the International Private Equity Venture Capital guidelines. For fund investments, the capital account value per the most recent fund manager report is taken and then adjusted for any specific disagreement in relation to the valuation of underlying investments. For direct investments, a valuation is calculated using a methodology based on applying comparable sector multiples to the investment's sustainable earnings

- **Debt securities**

  Debt securities are carried on the Balance Sheet at amortised cost using the effective interest rate method less provision for impairment. It is considered that the carrying value of the debt securities reflects the fair value.

- **Bank balances/bank overdraft**

  The fair value of bank balances and the bank overdraft repayable on demand is considered to be equal to their carrying value.

- **Trade and other payables**

  For payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

- **Interest-bearing loans and borrowings**

  Fair value is calculated based on discounted expected future principal and interest cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

21. Fair values (continued)

Fair value of financial instruments carried at fair value
The tables below provide an analysis of the financial assets and liabilities of the Company that are carried at fair value in the Company's balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Valuation hierarchy At 31 December 2012	**Note**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss		-	-	80,386	80,386
Available-for-sale financial assets		-	-	138,183	138,183
Total financial assets	*13(b)*	-	-	**218,569**	**218,569**

Valuation hierarchy At 31 December 2011	**Note**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss		-	-	64,103	64,103
Available-for-sale financial assets		4,067	-	334,012	338,079
Total financial assets	*13(b)*	4,067	-	398,115	402,182

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 portfolios
Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise listed equity shares, treasury bills and other government securities.

Level 2 portfolios
Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable data.

Level 3 portfolios
Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include the Company's venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

21. Fair values (continued)

The following table shows the reconciliation from the opening balances to the closing balances for fair value measurement in level 3 of the fair value hierarchy:

	Trading and other financial assets at fair value through profit or loss £'000	Available for sale £'000	Held for sale £'000	Total financial assets £'000
At 1 January 2011	**60,812**	**315,360**	**75,326**	**451,498**
Gains/(losses) recognised in:				
- Income statement	3,291	(17,931)	(1,033)	(15,673)
- Other comprehensive income	-	14,754	(16,216)	(1,462)
Additions	-	51,389	597	51,986
Disposals	-	(29,560)	(58,674)	(88,234)
At 31 December 2011	**64,103**	**334,012**	**-**	**398,115**
Gains/(losses) recognised in:				
- Income statement	**16,204**	**(10,619)**	**-**	**5,585**
- Other comprehensive income	**-**	**(76,452)**	**-**	**(76,452)**
Additions	**484**	**55,867**	**-**	**56,351**
Disposals	**(405)**	**(164,625)**	**-**	**(165,030)**
At 31 December 2012	**80,386**	**138,183**	**-**	**218,569**

Total gains and losses included in profit or loss for the year in the above table are presented in the income statement as follows:

	Trading and other financial assets at fair value through profit or loss	Available for sale	Total financial assets
For the year ended 31 December 2012	**£'000**	**£'000**	**£'000**
Total gains/(losses) included in income statement for the year:			
Valuation gains	**16,204**	**-**	**16,204**
Amounts written off	**-**	**(3,583)**	**(3,583)**
Foreign exchange movement	**-**	**(7,036)**	**(7,036)**
	16,204	**(10,619)**	**5,585**
Total losses included in Other comprehensive income for the year:			
Equity securities - available-for-sale	**-**	**(73,312)**	**(73,312)**
Foreign exchange movement	**-**	**(3,140)**	**(3,140)**
	-	**(76,452)**	**(76,452)**
Amounts included within loss for the year that relate to assets held at year end:			
Amounts written off	**-**	**(1,536)**	**(1,536)**
Foreign exchange movement	**-**	**(1,137)**	**(1,137)**
Valuation gains on investments	**16,204**	**-**	**16,204**
	16,204	**(2,673)**	**13,531**
Total losses included in Other comprehensive income for the year, for assets held at the end of the year:			
Equity securities - available-for-sale	**-**	**(9,813)**	**(9,813)**
Foreign exchange movement	**-**	**(633)**	**(633)**
	-	**(10,446)**	**(10,446)**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

21. Fair values (continued)

For the year ended 31 December 2011	Trading and other financial assets at fair value through profit or loss £'000	Available for sale £'000	Held for sale £'000	Total financial assets £'000
Total losses included in Income Statement for the year:				
Amounts written off investments	-	(12,376)	-	(12,376)
Foreign exchange movement	-	(5,555)	(1,033)	(6,588)
	-	(17,931)	(1,033)	(18,964)
Total gains/(losses) included in Other comprehensive income for the year:				
Changes to fair value in available-for-sale investments	-	16,668	(15,911)	757
Foreign exchange movement	-	(1,914)	(305)	(2,219)
	-	14,754	(16,216)	(1,462)
Amounts included within loss for the year that relate to assets held at year end:				
Amounts written off investments	-	(12,376)	-	(12,376)
Foreign exchange movement	-	(5,555)	-	(5,555)
	-	(17,931)	-	(17,931)
Total gains/(losses) included in Other comprehensive income for the year, for assets held at the end of the year:				
Changes to fair value in available-for-sale investments	-	16,777	-	16,777
Foreign exchange movement	-	(2,070)	-	(2,070)
	-	14,707	-	14,707

The valuation techniques used for unlisted equities and venture capital investments vary depending on the nature of the investment. Further details of these are given below. As these factors differ for each investment depending on the nature of the valuation technique used and the inputs there is no single common factor that could be adjusted to provide a reasonable alternative valuation for these investments portfolios.

Changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects:

	As at 31 December 2012			As at 31 December 2011		
	Fair value £'000	**Favourable changes £'000**	**Unfavourable changes £'000**	Fair value £'000	Favourable changes £'000	Unfavourable changes £'000
Financial assets at fair value through profit or loss						
Equity securities	**80,386**	**16,717**	**(4,019)**	64,103	11,188	(3,205)
Available-for-sale financial assets						
Equity securities	**138,183**	**5,426**	**(5,687)**	338,079	24,561	(15,892)
Financial assets	**218,569**	**22,143**	**(9,706)**	402,182	35,749	(19,097)

Both favourable and unfavourable movements in respect of financial assets at fair value through profit or loss would be recognised in the income statement and movements in respect of available-for-sale assets would be recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

21. Fair values (continued)

The main products where level 3 valuations have been used are described below:

Equity investments (including venture capital)
Unlisted equities and fund investments are accounted for as financial assets at fair value through profit or loss or as available-for-sale financial assets. These investments are valued using different techniques as a result of the variety of investments across the portfolio in accordance with the Group's valuation policy and are calculated using International Private Equity and Venture Capital (IPEV) Guidelines.

Depending on the business sector and the circumstances of the investment unlisted equity valuations are based on earnings multiples, net asset values or discounted cash flows.

- A number of earnings multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation (EBITDA). The particular multiple selected being appropriate for the type of business being valued and is derived by reference to the current market-based multiple. Consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple, and as such this multiple has been considered in establishing the possible alternatives above.
- Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, with the application of appropriate exit yields or terminal multiples and discounted using rates appropriate to the specific investment, business sector or recent economic rates of return. Recent transactions involving the sale of similar businesses may sometimes be used as a frame of reference in deriving an appropriate multiple. The rates of discount applied have been considered in establishing the possible alternatives above.
- For fund investments the most recent capital account value calculated by the fund manager is used as the basis for the valuation and adjusted, if necessary, to align valuation techniques with the Group's valuation policy. In line with IPEV guidelines the values of underlying investments in these portfolios have been considered, and possible alternatives considered on both a positive and negative basis.

22. Financial commitments

As at 31 December 2012, the Company has undrawn commitments in private equity funds of £323,808,000 (2011: £364,875,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

23. Related parties

The Company's immediate parent undertaking is Bank of Scotland plc. A number of related party banking transactions are entered into with Bank of Scotland plc in the normal course of business including loans and overdrafts. Details of the related party balances and transactions during the period are disclosed in the table below:

Nature of transaction	Outstanding balance at 1 January 2012	**Outstanding balance at 31 December 2012**	**Income/ (expense) included in the Income Statement for the year ended 31 December 2012**	Income/ (expense) included in the Income Statement for the year ended 31 December 2011	**Disclosure in financial statement**	**Counter-party**
	£'000	**£'000**	**£'000**	£'000		
Bank balance	(88,805)	**(60,649)**	-	-	Bank overdraft	Bank of Scotland plc
Term loans	(186,259)	**(58,354)**	-	-	Interest-bearing loans and borrowing	Bank of Scotland plc
Bank balance currency accounts	2,719	**360**	-	-	Cash and cash equivalents	Bank of Scotland plc
Interest payable	(805)	**(105)**	**(1,687)**	(7,026)	Trade & other payables/ Financing costs	Bank of Scotland plc
Interest receivable	-	-	**2**	84	Investment income	Bank of Scotland plc
Accrued audit fee	28	-	-	45	Trade and other payables	Bank of Scotland plc
Amounts due to subsidiaries	(391)	**(391)**	-	-	Amounts due to related parties	Uberior Properties (2002) Ltd
Dividend from subsidiary	-	-	**3,156**	-	Dividends from investments in subsidiaries	HBOS Capital Funding 3 LP
Dividend from subsidiary	-	-	**2,634**	-	Dividends from investments in subsidiaries	HBOS Capital Funding 4 LP
Dividend from subsidiary	-	-	-	137,304	Dividends from investments in subsidiaries	Uberior Infrastructure Investments Limited
Dividend from subsidiary	-	-	-	2,808	Dividends from investments in subsidiaries	Uberior Fund Manager Limited
Legal fees recharge	-	**(947)**	**(947)**	-	Amounts due to related parties/profit on disposal of investments	Bank of Scotland plc

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

23. Related parties (continued)

Transactions with fellow subsidiary undertakings

The income tax payable by the Company relates to group relief payable to fellow subsidiary undertakings. The outstanding balance at the end of the year was £3,255,000 (2011: receivable of £157,000).

Business Growth Fund

In May 2011, the Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to commit up to £300 million of equity investment by subscribing for shares in the Business Growth Fund plc which is the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association Taskforce Report of October 2010. At 31 December 2012, LBG Group had invested £49,592,000 (2011: £20,000,000) in the Business Growth Fund and carried the investment at a fair value of £43,730,000 (2011:£16,000,000). Remaining commitments totalled £250,408,000.

Big Society Capital

In January 2012 the Group agreed, together with The Royal Bank of Scotland plc (and two other non-related parties), to commit up to £50,000,000 each of equity investment into the Big Society Capital Fund. The Fund, which was created as part of the Project Merlin arrangements, is a UK social investment fund. The Fund was officially launched on 3 April 2012 and the Group invested £11,919,000 in the Fund during 2012.

24. Post balance sheet events

The Finance Act 2013 was substantively enacted on 2 July 2013. The Act further reduces the rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015. The impact of the corporation tax reductions to 21 and 20 per cent will be reflected in the financial statements for the year ended 31 December 2013. The effect of these rate reductions on the Company's deferred tax balance is estimated to be a reduction in the net deferred tax liability of approximately £2,185,000.

On 10 June 2013, the Company subscribed for a further 12,699 ordinary shares of £1 each in its subsidiary, Uberior Fund Holdings Limited.

25. Parent undertakings

The immediate parent company is Bank of Scotland plc. The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, a company incorporated in Scotland. Lloyds Banking Group plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2012. The annual report and accounts of Lloyds Banking Group plc are available from 25 Gresham Street, London, EC2V 7HN. Bank of Scotland plc is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The annual report and accounts of Bank of Scotland plc can be obtained from The Mound, Edinburgh, EH1 1YZ.