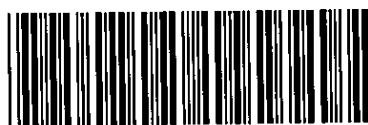


UBERIOR INVESTMENTS PLC
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009

Company Number SC073998

WEDNESDAY



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30/06/2010

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COMPANIES HOUSE

Directors

Andrew John Cumming
David Warren Godfrey
George Truett Tate
Jonathan Britton
Andrew William Géczy

Secretary

J E Nielsen

Registered Office

Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

REPORT OF THE DIRECTORS

Directors

Andrew John Cumming
David Warren Godfrey
George Truett Tate
Andrew William Géczy
Jonathan Britton

The Directors submit their report and audited accounts of Uberior Investments plc ("the Company") for the year ended 31 December 2009.

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 in that activity during the year.

Business Review

During the year the Company continued to manage investments acquired in previous years.

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

Risk Management

The key risks and uncertainties faced by the Company are managed within the framework established for Lloyds Banking Group. Exposure to credit risk, interest rate risk and foreign exchange risk arises in the normal course of the Company's business. These risks are discussed below and supplementary qualitative and quantitative information is provided by Note 20 to the financial statements. The Company is funded by its intermediate parent undertaking and as a result liquidity risk is managed within the Lloyds Banking Group ('the Group').

Credit Risk

A full credit assessment of the financial strength of each potential transaction and 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 matched with borrowings in the same currency, thus no material sensitivity to foreign exchange exposure is considered to exist. The currency which gives rise to the Company's foreign exchange risk is Euro and US Dollars.

REPORT OF THE DIRECTORS (continued)Performance

The Company's loss before tax for the financial year is £289,233,000 (2008: loss - £80,104,000). This represents an increase in loss before tax of 261%.

In 2009 the Company has assessed the requirement for specific impairments. In 2008 £115,528,000 was charged to the Income Statement while this year a charge of £272,991,000 has been incurred. In addition, this year saw a reduction in volume of disposal of investments resulting in profits of £14,640,000 being recognised in the Income Statement. This compares to £84,912,000 of profits on disposal recognised last year. 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 total assets have fallen to £595,666,000 in 2009 compared to £954,421,000 in 2008. This reduction is mainly due to impairments of £272,991,000 along with a £92,435,000 disposal of investments.

The key performance indicator used in assessing the performance of the Company is monitoring rolling valuations of each investment. At selected Board meetings the Directors review the performance of the Company's investments on both an individual and an industry sector basis.

Future Developments

The Company remains committed to the business of holding investments and will continue to manage existing investments in the future.

Results and Dividends

The results for the year are shown in the Income Statement on page 6. The Directors do not recommend the payment of a dividend in 2009 (2008: £350,000,000).

Going concern

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

Directors and their Interests

The Directors at the date of this report are as stated on page 2. Dates of appointments and resignations were as follows:

<u>Director</u>	<u>Date of Appointment</u>	<u>Date of Resignation</u>
Karen Margaret Bothwell	22/09/2006	06/08/2009
Jonathan Britton	06/08/2009	
Andrew John Cumming	06/08/2009	
Peter Joseph Cummings	01/01/2001	16/01/2009
David Warren Godfrey	06/08/2009	
Stewart Fraser Livingston	01/05/2008	13/08/2009
David Miller	01/05/2008	06/08/2009
John Conway Moran	01/05/2008	06/08/2009
Ceri Richards	01/05/2008	06/08/2009
George Truett Tate	06/08/2009	
Alistair Linn Webster	16/01/2004	06/08/2009
Graeme Robert Andrew Shankland	02/02/2006	26/05/2010
Andrew William Géczy	10/11/2009	

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

REPORT OF THE DIRECTORS (continued)

Auditors

Following the resignation of KPMG on 13 May 2009, PricewaterhouseCoopers LLP were appointed as auditors of the company with effect from the same date by resolution of the members dated 1 June 2009. Accordingly, a resolution proposing the reappointment of PricewaterhouseCoopers LLP as auditors will be put to the members of the company before the end of the next period for appointing auditors (as defined by the Companies Act 2006).

Auditors and Disclosure of Information to Auditors

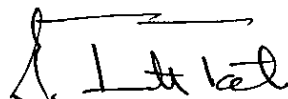
Each director in office at the date of this report confirms that:

- 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 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.

By Order of the Board,

George Truett Tate
Director



29 June 2010

Company Number SC073998

Registered Office

Bank of Scotland
Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Income Statement**For the year ended 31 December 2009**

	<i>Note</i>	2009 £'000s	2008 £'000s
Income from investments in subsidiaries		3,552	4,598
Valuation losses on investments	13	(23,029)	(60,402)
Investment income	3	10,770	30,788
		<u>(8,707)</u>	<u>(25,016)</u>
Profit on disposal of investments		14,640	84,912
Amounts written off associates	10	(58,351)	(23,463)
Amounts written off jointly controlled entities	11	(13,697)	-
Amounts written off subsidiary undertakings	12	(545)	-
Amounts written off investments	13	(200,398)	(92,065)
Total amounts written off		<u>(272,991)</u>	<u>(115,528)</u>
Administrative expenses	5	(7,896)	(7,695)
Other income	4	2,390	2,884
Other expenses	6	(38)	(31)
Net other income		<u>2,352</u>	<u>2,853</u>
Operating loss before financing costs		<u>(272,602)</u>	<u>(60,474)</u>
Financing costs	7	(16,631)	(19,630)
Loss before tax		<u>(289,233)</u>	<u>(80,104)</u>
Income tax recoverable	8	33,763	43,488
Loss after tax for the year		<u>(255,470)</u>	<u>(36,616)</u>
Attributable to:			
Equity holders		(255,470)	(36,616)
Loss for the year		<u>(255,470)</u>	<u>(36,616)</u>

The notes on pages 11 to 34 form part of these accounts.

Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
Loss for the year		(255,470)	(36,616)
Other comprehensive income:			
Movements in available for sale financial assets, net of tax:			
- changes in fair value		(30,983)	(140,419)
- impairments recognised in the income statement	13	113,126	90,224
- realised profits recognised in the income statement		(14,198)	(68,574)
- movements in deferred tax		(12,289)	-
Currency translation differences		(17,392)	19,014
Other comprehensive income for the year, net of tax		38,264	(99,755)
Total comprehensive income for the year		(217,206)	(136,371)
Attributable to:			
Equity holders		(217,206)	(136,371)
Total comprehensive income for the year		(217,206)	(136,371)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 8.

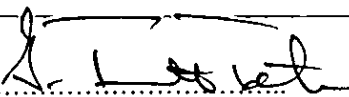
The notes on pages 11 to 34 are an integral part of these financial statements.

Balance Sheet**As at 31 December 2009**

	<i>Note</i>	2009 £'000s	2008 £'000s
Assets			
Interests in associates	10	854	59,205
Interests in jointly controlled entities	11	1,555	15,252
Investments in subsidiary undertakings	12	32,954	33,505
Investments	13	436,394	714,081
Total non-current assets		471,757	822,043
Investments held for sale	14	45,256	-
Cash and cash equivalents	16	24,018	103,332
Term deposits	16	20,616	-
Income tax recoverable	9	34,019	27,262
Deferred tax asset	15	-	1,784
Total current assets		123,909	132,378
Total assets		595,666	954,421
Equity			
Issued capital	17	2,000	2,000
Reserves		58,491	20,227
Retained earnings		(192,215)	63,255
Total equity		(131,724)	85,482
Liabilities			
Interest bearing loans and borrowings	18	191,353	288,596
Deferred tax liability	15	12,295	-
Total non-current liabilities		203,648	288,596
Bank overdrafts	16	403,261	448,061
Interest bearing loans and borrowings	18	97,737	103,364
Due to related undertakings		6	4,839
Trade and other payables	19	22,738	24,079
Total current liabilities		523,742	580,343
Total liabilities		727,390	868,939
Total equity and liabilities		595,666	954,421

The notes on pages 11 to 34 form part of these accounts.

The financial statements on pages 6 to 34 were approved by the Board of Directors on 29 June 2010 and were signed on its behalf by:



 George Truett Tate
 Director

Statement of Changes in Equity

For the year ended 31 December 2009

	Share Capital £'000s	AFS Reserve £'000s	Retained Earnings £'000s
Balance at 1 January 2008	2,000	119,982	449,871
Loss for the year			
Loss after taxation	-	-	(36,616)
Dividends to shareholders	-	-	(350,000)
Other comprehensive income			
Available for sale financial assets	-	(118,769)	-
Currency translation differences	-	19,014	-
Total other comprehensive income	-	(99,755)	-
Total comprehensive income	-	(99,755)	(386,616)
Balance at 1 January 2009	2,000	20,227	63,255
Loss for the year			
Loss after taxation	-	-	(255,470)
Other comprehensive income			
Available for sale financial assets	-	55,656	-
Currency translation differences	-	(17,392)	-
Total other comprehensive income	-	38,264	-
Total comprehensive income	-	38,264	(255,470)
Balance at 31 December 2009	2,000	58,491	(192,215)

The notes on pages 11 to 34 are an integral part of these financial statements.

Statement of Cash Flows**For the year ended 31 December 2009**

	<i>Note</i>	2009 £'000s	2008 £'000s
Cash flows from operating activities			
Operating loss before financing costs		(272,602)	(60,474)
Profit on disposal of investments		(14,640)	(84,912)
Amounts written off investments	13	200,398	92,065
Amounts written off investments in associates	10	58,351	23,463
Amounts written off investments in jointly controlled entities	11	13,697	-
Amounts written off investments in subsidiary undertakings	12	545	-
(Decrease) in amounts due to related undertakings		(4,834)	(2,003)
Decrease in amounts due by related undertakings		-	24,845
Exchange rate movement		(4,599)	(6,624)
Fair value losses through income statement		23,029	60,402
Decrease in trade and other receivables		-	1,368
Increase / (decrease) in trade and other payables		2,278	(10,471)
Cash generated from operations		1,623	37,659
Interest paid		(15,200)	(27,336)
Income taxes repaid		21,675	(97,192)
Net cash from operating activities		8,098	(86,869)
Cash flows from investing activities			
Proceeds from sale of subsidiary undertakings		302	-
Proceeds from sale of investments and interests		107,251	365,968
Acquisition of subsidiary undertakings	12	(302)	(2,317)
Acquisition of investments and interests	13	(47,336)	(208,310)
Net cash from investing activities		59,915	155,341
Cash flows from financing activities			
Decrease in borrowings		(102,870)	(69,248)
Increase in term deposits		(20,616)	-
Dividends paid		-	(350,000)
Exchange rate movement		26,332	(78,897)
Net cash from financing activities		(97,154)	(498,145)
Net decrease in cash and cash equivalents		(29,141)	(429,673)
Effect of exchange rate fluctuations on cash held		(5,373)	8,337
Cash and cash equivalents at 1 January		(344,729)	76,607
Cash and cash equivalents at 31 December	16	(379,243)	(344,729)

The notes on pages 11 to 34 form part of these accounts.

Notes to the financial statements**1. Significant accounting policies**

Uberior Investments Plc ("the Company") is a company domiciled in Scotland.

The financial statements were authorised for issue by the directors on 29th June 2010.

(a) Financial statements

The financial statements of Uberior Investments Plc comprise the Income Statement, Balance Sheet, Statement of Cash Flows, Statement of Comprehensive Income and Statement of Changes in Equity together with the related Notes to the financial statements.

(b) Statement of Compliance

The 2009 statutory financial statements set out on pages 6 to 34 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. 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 s. 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.

(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 values: financial instruments classified as available for sale and financial instruments designated as fair value through the profit or loss.

The following new IFRS pronouncements relevant to the company have been adopted in these financial statements:

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Company has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements; the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements.
- Amendments to IFRS 7 'Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the amendments only result in additional disclosures, the amendments have not had any impact for amounts recognised in these financial statements.

The application of the following IFRS pronouncements which all became effective in 2009 has had no material impact on these financial statements:

- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement. This amendment clarifies that a reassessment of embedded derivatives is required whenever a financial asset has been reclassified out of the fair value through profit or loss category.
- IFRIC 13 Customer Loyalty Programmes. This interpretation addresses accounting by entities who grant customer loyalty award credits to customers as part of sales transactions and which can be redeemed in the future for free or discounted goods or services. The majority of customer loyalty award schemes are operated by third parties.
- IFRS 8 'Operating Segments'. This new standard replaces IAS 14 'Segment Reporting' and requires reporting of financial and descriptive information about operating segments which are based on how financial information is reported and evaluated internally. There is no segment information for the year ended 31 December 2009 and for the corresponding comparative period presented in these financial statements.

Notes to the financial statements (continued)**1. Significant accounting policies (continued)**

- **IAS 23 Borrowing Costs.** This revised standard requires interest and other costs incurred in connection with the borrowing of funds to be recognised as an expense excepting that those which are directly attributable to the acquisition, construction or production of assets that take a substantial period of time to get ready for their intended use or sale which must be capitalised as part of the cost of those assets.
- **Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation.** The amendments require some puttable financial instruments (being those which give the holder the right to put the instrument back to the issuer for cash or another financial asset) and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity.
- **Improvements to IFRSs (issued May 2008).** Sets out minor amendments to IFRS standards as part of annual improvements process. Most amendments clarified existing practice.

(d) IFRS and IFRIC Not Yet Applied

The following pronouncements will be relevant to the Company but were not effective at 31 December 2009 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the Company. With the exception of IFRS 9, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements.

Pronouncement	Nature of change	IASB effective date
<i>IFRS 3 Business Combinations</i>	The revised standard continues to apply the acquisition method to business combinations, however, all payments to purchase a business are to be recorded at fair value at the acquisition date, some contingent payments are subsequently remeasured at fair value through income, goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest, and all transaction costs are expensed.	Annual periods beginning on or after 1 July 2009.
<i>IAS 27 Consolidated and Separate Financial Statements</i>	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control; any remaining interest in an investee is re-measured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.	Annual periods beginning on or after 1 July 2009.
<i>IFRIC 17 Distributions of Non-cash Assets to Owners</i>	Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative).	Annual periods beginning on or after 1 July 2009.
<i>Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>	Clarifies how the principles underlying hedge accounting should be applied in particular situations.	Annual periods beginning on or after 1 July 2009.
<i>Improvements to IFRSs¹ (issued April 2009)</i>	Sets out minor amendments to IFRS standards as part of annual improvements process.	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

Pronouncement	Nature of change	IASB effective date
Amendment to IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>	Requires rights issues denominated in a currency other than the functional currency of the issuer to be classified as equity regardless of the currency in which the exercise price is denominated.	Annual periods beginning on or after 1 February 2010.
IFRS 9 <i>Financial Instruments: Classification and Measurement</i>	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two; fair value and amortised cost. The existing available-for-sale and held-to-maturity categories have been eliminated. Classification will be made on the basis of the objectives of entity's business model for managing the assets and the characteristics of the contractual cash flows.	Annual periods beginning on or after 1 January 2013.
Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions	Clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, whether or not settled in shares or cash.	Annual periods beginning on or after 1 January 2010.
IAS24 <i>Related Party Disclosures</i> ¹	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities.	Annual periods beginning on or after 1 January 2011.
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	This interpretation provides guidance on accounting for hedges of net investments in foreign operations in an entity's consolidated financial statements.	Annual periods beginning on or after 1 July 2009.

Table note: 1. At the date of this report, these pronouncements are awaiting EU endorsement.

(e) Foreign currency

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated with the closing rate as at the reporting date. Foreign exchange gains and losses resulting from the settlement of foreign currency 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.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(f) Hedge Accounting (continued)

Foreign currency gains and losses on 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'.

(g) Investment Securities

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.

Investments in Subsidiaries

Investments in subsidiaries are included in the Company's financial statements. These comprise equity investments in, and capital contributions to subsidiary entities. These are carried at cost less impairment provisions.

Investments in debt and equity securities

Investment securities designated at fair value through profit or loss are carried at fair value. Gains, losses and related income are taken to the income statement as they arise.

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 upon receipt and taken to interest income through the income statement.

All other investment securities are classified as available for sale. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the balance sheet at fair value. Unrealised gains or losses arise from changes in the fair values and are recognised in the Statement of Comprehensive Income and accumulated in the available for sale reserve, except for impairment losses which are recognised immediately in the income statement in impairment on investment securities. Income from equity shares is credited to other operating income, with income on listed equity shares being credited on the ex-dividend date and income on unlisted equity shares being credited on an equivalent basis. On sale or maturity, previously unrealised gains and losses are reclassified from other comprehensive income to other operating income.

Investments held for sale

Investments are classified as assets held for sale when their carrying amount is likely to be recovered principally through a sale transaction and a sale is considered to be highly probable.

(h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

(i) Cash and cash equivalents

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

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(j) Impairment of 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 fair value – when a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in equity 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 profit or loss – is removed from equity 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 profit or loss, the impairment loss is reversed through equity.

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 group, 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 recognised in the income statement.

Financial assets carried at fair value – when a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in equity 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 profit or loss – is removed from equity 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 profit or loss, the impairment loss is reversed through equity.

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

- during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

Notes to the financial statements (continued)**1. Significant accounting policies (continued)****(k) Impairment of financial assets (continued)**

- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- the carrying amount of the net assets of the entity is more than its market capitalisation; or
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

If there is objective evidence of impairment, an impairment loss is recognised for the amount by which the asset or group of asset's carrying amount exceeds the recoverable amount. 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.

Subsidiaries Subsidiaries comprise equity investments in, and capital contributions to subsidiary entities. These are carried at cost less impairment provisions. At each reporting date an assessment is undertaken to determine if there is any indication of impairment. 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 impairment is made to reduce the carrying value to the recoverable amount.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing 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 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) Dividends

Dividends paid on the Company's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

(n) Trade and other payables

Trade and other payables are stated at cost.

(o) Financing costs

Financing costs comprise interest payable on borrowings and foreign exchange gains and losses in relation to balances not included within the fair value hedge, for example current accounts.

Notes to the financial statements (continued)**1. Significant accounting policies (continued)****(p) Revenue Recognition**

Fees and commission income are recognised in the income statement as the related service is provided. Dividend income is recognised when the right to receive payment is established.

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.

(q) Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

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 consolidated 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 in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. Income tax payable on profits is recognised as an expense in the period in which those profits arise. 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 and cash flow hedges, which are charged or credited to the Statement of Comprehensive Income, is also credited or charged to the Statement of Comprehensive Income and is subsequently reclassified to the income statement together with the deferred gain or loss.

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.

(r) Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions 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.

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'. This 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;

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(r) Critical Accounting Estimates and Judgements (continued)

The Company has chosen not to designate any financial assets as 'held to maturity';

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.

Impairment of Available for Sale Investments

As explained in the accounting policy, investment securities classified as available for sale 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.

Fair values

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Management uses its judgement to select appropriate valuation models and further judgements are exercised when assessing the inputs to, and outcomes from, the valuation model.

Note 20 provides further information regarding the fair value of financial instruments not traded in active markets, including sensitivity analysis of the key management judgements.

Deferred Tax

The recognition of deferred tax assets requires management judgement in determining the extent and amount which should be recognised. Estimates of future taxable income/profits are made and management judgement is exercised as to whether these estimates indicate if the deferred tax asset can be recovered and when.

2. Going Concern – Principles Underlying Going Concern Assumption

The Company is reliant on funding provided by Bank of Scotland plc. Notwithstanding the improvement in market liquidity during 2009, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

Notes to the financial statements (continued)

3. Investment income

	2009 £'000s	2008 £'000s
Income from investment securities available for sale	5,847	14,009
Income from investment securities loans and receivables	2,529	15,817
Bank interest received	2,394	962
	<u>10,770</u>	<u>30,788</u>

4. Other income

	2009 £'000s	2008 £'000s
Agency fees	<u>2,390</u>	<u>2,884</u>

5. Administrative expenses

	2009 £'000s	2008 £'000s
Management fees	<u>7,896</u>	<u>7,695</u>

The company has no employees and no remuneration paid to directors.

6. Other expenses

	2009 £'000s	2008 £'000s
Audit Fee	9	9
Other Expenses	29	22
	<u>38</u>	<u>31</u>

7. Net Financing Costs

	2009 £'000s	2008 £'000s
Interest expense	11,581	26,789
Foreign exchange:		
Net ineffectiveness on fair value hedge (see note 20)	(54)	2,974
Other	5,104	(10,133)
Total foreign exchange	<u>5,050</u>	<u>(7,159)</u>
Net financing costs	<u>16,631</u>	<u>19,630</u>

Notes to the financial statements (continued)**8. Income tax credit recognised in the income statement**

	2009 £'000s	2008 £'000s
Current tax		
Current year	(11,241)	20,663
Adjustments for prior years	(17,191)	(43,680)
	<u>(28,432)</u>	<u>(23,017)</u>
Deferred tax		
Deferred tax credit for the year	(5,331)	(17,977)
Deferred tax credit in respect of prior years	-	(2,494)
	<u>(5,331)</u>	<u>(20,471)</u>
Total income tax credit in income statement	<u>(33,763)</u>	<u>(43,488)</u>

Reconciliation of effective tax rate

The current tax recoverable is lower (2008: higher) than the standard value of corporation tax in the UK (28%; 2008: 28.5%) applied to the loss for the year due to the following factors:

	2009 £'000s	2008 £'000s
Loss before tax	(289,233)	(80,104)
Income tax using the corporation tax rate of 28% (2008: 28.5%)	(80,986)	(22,830)
UK dividends received	(1,747)	(3,379)
Impact of change in rate of Corporation tax	-	321
Overseas income taxed	-	1,153
Book gains covered by indexation / SSE	(3,247)	(3,845)
Amounts written off fixed asset investments	31,808	31,266
Adjustments for prior years	(17,191)	(46,174)
Losses which cannot be recognised for tax purposes	37,600	-
Total income tax recoverable	<u>(33,763)</u>	<u>(43,488)</u>

Deferred tax recognised in other comprehensive income

	2009 £'000s	2008 £'000s
Relating to equity securities available for sale	19,410	(38,791)

9. Current tax assets and liabilities

The current tax asset of £34,019,000 (2008: asset - £27,262,000) represents the amount of income taxes receivable in respect of current and prior years.

10. Interests in associates

	2009 £'000s	2008 £'000s
At cost 1 January	59,205	1,709
Additions	-	80,959
Amounts written off investments in associates	(58,351)	(23,463)
At cost 31 December	<u>854</u>	<u>59,205</u>

Of the amounts written off during 2009, £57,497,000 relates to a company operating in the construction sector which has been severely impact by the economic downturn.

The Company has a portfolio of associate investments. Details of the main investments in associate entities are as follows:

Notes to the financial statements (continued)**10. Interests in associates (continued)**

Name of associate entity	Proportion of ownership	Principal business	Incorporated	Reporting date of financial statements
Kingsgate (Dunfermline) Limited	21%	Other commercial activities	UK	31 January
The Miller Group Limited	19.99%	General construction and development	UK	31 December

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

11. Interests in jointly controlled entities

	2009 £'000s	2008 £'000s
At cost 1 January	15,252	2,257
Additions	-	12,995
Amounts written off investments in jointly controlled entities	(13,697)	-
At cost 31 December	<u>1,555</u>	<u>15,252</u>

Of the amounts written off during 2009, £12,995,000 relates to a company operating in the travel sector which has been severely impact by the economic downturn.

The Company has a portfolio of joint venture investments. Details of the main jointly controlled entities are as follows:

Name of jointly controlled entity	Proportion of ownership	Principal business	Incorporated	Reporting date of financial statements
Aviemore Highland Resort Limited	33%	Hotel Operator	UK	28 September
Kaleidoscope Travel Group Holdings Limited	50%	Specialist Tour Operator	UK	30 November

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

12. Investments in subsidiaries

	2009 £'000s	2008 £'000s
At cost 1 January	33,505	31,188
Additions	302	2,317
Disposals	(6)	-
Transfers	(302)	-
Amounts written off	(545)	-
At cost 31 December	<u>32,954</u>	<u>33,505</u>

Notes to the financial statements (continued)

12. Investments in subsidiaries (continued)

Details of the subsidiary undertakings are noted below:

<u>Name of Company</u>	<u>% of Ordinary shares held</u>	<u>Principal business</u>	<u>Reference date</u>	<u>Country of incorporation</u>
Above Bar (Southampton) Limited	100	Property Letting	31 December	UK
BOS Capital Funding LP	100	Debt Issuance	31 December	Jersey
HBOS Capital Funding LP	100	Investment / Debt Issuance	31 December	Jersey
Tantallon Investments Inc	100	Investment	31 December	USA
HBOS Capital Funding LP No 1	100	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding LP No 2	100	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding LP No 3	100	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding LP No 4	100	Investment / Debt Issuance	31 December	Jersey
Uberior Equity Limited	100	Investment	31 December	UK
Uberior Fund Investments Limited	100	Investment	31 December	UK
Uberior Infrastructure Investments Ltd	100	Investment	31 December	UK
Uberior Properties (2002) Limited	100	Property Letting	31 December	UK
Uberior Ventures Limited	100	Investment	31 December	UK
BOS PF Holdings Inc	100	Investment	31 December	Jersey
BOSIF Investments Limited (formerly Uberior Integrated Limited)	100	Investment	31 December	UK
Uberior ENA Limited	100	Investment	31 December	UK
Bosint Investments Limited	100	Investment	31 December	Jersey
Uberior Fund Managers Ltd	100	Fund Administration	31 December	UK
Uberior Energy Investments Limited	100	Investment	31 December	UK
Uberior ISAF CIP Nominee Ltd	100	Nominee	31 December	UK
Uberior ISAF CIP GP Ltd ¹	-	Nominee	31 December	UK
Uberior ISAF CIP 2 Ltd ¹	-	Nominee	31 December	UK
Uberior Fund Holdings Ltd	100	Fund Administration	31 December	UK
Indicus North Limited ²	-	Investment	31 December	UK

¹Uberior ISAF CIP GP Ltd and Uberior ISAF CIP 2 Ltd transferred to Uberior Fund Manager Limited during the year.

²Indicus North Limited entered members voluntary liquidation during the year.

13. Investments

	Total 2009 £'000	Total 2008 £'000
Investments		
Debt securities	10,315	118,773
Equity securities	426,079	595,308
	436,394	714,081
Income statement impairment charge in the year:		
Debt securities	(87,272)	(1,841)
Equity securities	(113,126)	(90,224)
	(200,398)	(92,065)

Notes to the financial statements (continued)

13. Investments (continued)

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

	Total 2009 £'000s	Total 2008 £'000s
Gross debt securities		
As at 1 January	120,614	309,576
Exchange translation	(666)	2,350
Additions	3,928	60
Disposals	(5,568)	(191,372)
Transfer to investments held for sale	(84,059)	-
As at 31 December	34,249	120,614
Provision for impairment		
As at 1 January	1,841	-
New provisions	87,272	1,841
Transfer to investments held for sale	(65,179)	-
As at 31 December	23,934	1,841
Net debt securities		
As at 31 December	10,315	118,773

Of the gross value of £34,249,000 (2008: £120,614,000), there is £27,119,000 (2008: £1,841,000) which is impaired. The remaining gross value is neither past due or impaired.

The movement in equity securities can be summarised as follows:

	Designated at fair value through income statement £'000s	Available for sale £'000s	2009 Total £'000s
At 1 January 2009	63,165	532,143	595,308
Exchange translation	-	(20,908)	(20,908)
Changes to fair value	(23,029)	57,676	34,647
Additions & transfers in	-	43,401	43,401
Disposals & transfers out	(13,542)	(73,325)	(86,867)
Amounts written off	-	(113,126)	(113,126)
	26,594	425,861	452,455
Transfer to investments held for sale	(26,376)	-	(26,376)
As at 31 December 2009	218	425,861	426,079

Notes to the financial statements (continued)

13. Investments (continued)

	Designated at fair value through income statement £'000s	Available for sale £'000s	2008 Total £'000s
At 1 January 2008	134,224	642,558	776,782
Exchange translation	1	83,086	83,087
Changes to fair value	(60,402)	(138,546)	(198,948)
Additions & transfers in	2	114,294	114,296
Disposals & transfers out	(10,660)	(79,025)	(89,685)
Amounts written off	-	(90,224)	(90,224)
As at 31 December 2008	63,165	532,143	595,308

14. Investments held for sale

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

	Total 2009 £'000s	Total 2008 £'000s
As at 1 January	-	-
Transfer in from gross debt securities	84,059	-
Transfer in from impairment against debt securities	(65,179)	-
Transfer in from assets designated as fair value through income statement	26,376	-
As at 31 December	45,256	-

The transfers into this category relate to a specific portfolio of investments identified for disposal by management. These were actively being marketed during 2009, and at balance date a sale was considered to be highly probable.

The income and expenses directly relating to this portfolio comprise 49% of the loss for the year.

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	
	2009 £'000s	2008 £'000s	2009 £'000s	2008 £'000s	2009 £'000s	2008 £'000s
Other	-	4,496	(185)	-	(185)	4,496
Equity shares - Available for sale equities	15,166	-	(27,276)	(7,866)	(12,110)	(7,866)
Equity shares - Investments designated at FV through income statement	-	5,154	-	-	-	5,154
Tax assets/(liabilities)	15,166	9,650	(27,461)	(7,866)	(12,295)	1,784

Deferred tax assets of £65,323,826 (2008: nil) have not been recognised in respect of capital losses carried forward as there are no predicted future capital profits. Capital losses can be carried forward indefinitely.

Notes to the financial statements (continued)

15. Deferred tax asset and liabilities (continued)

Movement in temporary differences in the year

	Balance at 1 Jan 2009 £'000s	Recognised in income £'000s	Recognised in equity £'000s	Transferred to HBOS £'000s	Balance at 31 Dec 2009 £'000s
Rolled over gains	-	-	-	-	-
Other	1,628	(1,813)	-	-	(185)
Impairments on available for sale equities	2,868	12,298	-	-	15,166
	4,496	10,485	-	-	14,981
Investments designated at fair value through income statement	5,154	(5,154)	-	-	-
Available for sale equities	(7,866)	-	(19,410)	-	(27,276)
	(2,712)	(5,154)	(19,410)	-	(27,276)
Total	1,784	5,331	(19,410)	-	(12,295)

	Balance at 1 Jan 2008 £'000s	Recognised in income £'000s	Recognised in equity £'000s	Transferred to HBOS £'000s	Balance at 31 Dec 2008 £'000s
Rolled over gains	(32,217)	-	-	32,217	-
Other	89	1,539	-	-	1,628
Impairments on available for sale equities	849	2,019	-	-	2,868
	(31,279)	3,558	-	32,217	4,496
Investments designated at fair value through income statement	(11,759)	16,913	-	-	5,154
Available for sale equities	(46,657)	-	38,791	-	(7,866)
	(58,416)	16,913	38,791	-	(2,712)
Total	(89,695)	20,471	38,791	32,217	1,784

16. Cash and cash equivalents

	2009 £'000s	2008 £'000s
Bank balances	24,018	103,332
Bank overdrafts	(403,261)	(448,061)
Cash and cash equivalents in the statement of cash flows	(379,243)	(344,729)

Term deposits of £20,616,000 (2008: Nil) are disclosed separately due to their maturity dates of greater than three months.

Notes to the financial statements (continued)**17. Capital and reserves**

The distributable reserves of the Company are managed through the Group Capital and Funding Policy in order to maximise capital efficiency within the Lloyds Banking Group. Dividends are paid from reserves available for distribution to the parent undertaking as reported by the previously approved annual accounts according to parameters set out at a Group 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 2009 £'000s	Ordinary shares 2008 £'000s
On issue at 1 January and at 31 December – fully paid	2,000	2,000

At 31 December 2009, the authorised share capital comprised 2,000,000 £1 Ordinary Shares (2008: 2,000,000).

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 value reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised either by disposal or impairment.

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.

	2009 £'000s	2008 £'000s
Non-current liabilities		
Unsecured bank loans	191,353	288,596
Current liabilities		
Current portion of unsecured bank loans	97,737	103,364

Terms and debt repayment schedule

The bank loans are unsecured and represent amounts due to the Company's immediate parent undertaking, Bank of Scotland plc. The loans fall due for repayment at various dates between February 2010 and November 2013. Interest is fixed on each loan at the date the loan is advanced to the Company, with rates ranging from 3.31% to 4.96%.

Notes to the financial statements (continued)**19. Trade and other payables**

	2009 £'000s	2008 £'000s
Accruals	18,206	21,825
Creditors	4,532	2,254
	<u>22,738</u>	<u>24,079</u>

20. Financial Instruments**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, principally from investment activities that bring debt securities into the Company's asset portfolio. The table below sets out the maximum exposure to credit risk at the balance sheet date.

	2009 £'000s	2008 £'000s
<u>On Balance sheet:</u>		
Investments - Debt securities	10,315	118,773
Investments held for sale - Debt securities	18,880	-
Cash and cash equivalents	24,018	103,332
Short term deposits	20,616	-
	<u>73,829</u>	<u>222,105</u>

Debt securities in issue are carried at amortised cost adopting the impairment policy described within note 1(j). Other exposures consist of inter-company balances with the Lloyds Banking Group.

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

	2009 %	2008 %
Internal rating - Better than satisfactory risk	14	-
Internal rating - Satisfactory risk	74	38
Internal rating - Viable but monitoring	-	47
Internal rating - High Risk / impaired	12	15

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)

At the reporting date, the Company's exposure to market risk arose from all of the above.

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.

Debt securities have fixed interest rates. These securities are funded by financial liabilities provided by another Lloyds Banking Group company. One of the facilities provided is a non-interest bearing overdraft; the others are fixed rate bank loans. The Company does not consider itself to have any significant interest rate exposures as demonstrated by the sensitivity note below.

Interest rate exposure is concentrated primarily within the UK money markets. The principal internal control metric is the net interest income sensitivity which measures how much of the current projection for the next 12 months' interest income and expense would alter if different assumptions are made about the future levels of interest rates.

Notes to the financial statements (continued)**20. Financial Instruments (continued)**

The table below sets out the sensitivity of the Company's interest income and expense over a 12 month period to an immediate up and down 25 basis points change to all market interest rates as at the balance sheet date.

	2009	2008
	£000	£000
Impact of +25 bps shift	17	151
Impact of - 25 bps shift	(17)	(151)

The measure, however, is simplified in that it assumes all interest rates, for all currencies and maturities, move at the same time and by the same amount. Also, it does not recognise the impact of management actions that, in the event of an adverse rate movement, could reduce the impact on net interest income.

Foreign exchange risk

Foreign exchange risk arises on investments, short term deposits and foreign currency fixed interest term loans 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 matched 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 hedge the foreign exchange risk arising from the impaired historic cost of available for sale equity instruments. This risk is hedged by a proportion of the foreign currency fixed interest term loans portfolio with £251,445,000 of foreign currency fixed interest term loans being designated in a fair value hedge relationship at year end (2008: £348,983,000 of foreign currency fixed interest term loans).

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:

	2009	2008
	£000	£000
Foreign exchange gain on hedging instrument	20,961	(86,057)
Foreign exchange loss on hedged item	(20,907)	83,083
Net ineffectiveness on fair value hedge	54	(2,974)

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.

At the reporting date the carrying value of equity investments amounted to £452,455,000 (2008: £595,308,000). 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 (AFS) 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.

	2009	2009	2008	2008
	PBT	AFS	PBT	AFS
	£000	reserve £000	£000	reserve £000
Unlisted equity investments	30,879	13,339	6,317	48,628
Listed equity investments	40	987	-	4,586
	30,919	14,326	6,317	53,214

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

Notes to the financial statements (continued)**20. Financial Instruments (continued)**

The underlying investment sector has concentrations around Manufacturing (31%) and Wholesale and Retail Trade (17%), but is otherwise well diversified over a variety of investment sectors.

Geographic exposure is predominantly within the European Union (44%) and the UK (41%).

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 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 2009

	Up to 1 mth £000	1-3 mths £000	3-12 mths £000	1-5 yrs £000	Total £000
Bank overdrafts	403,261	-	-	-	403,261
Interest bearing loans and borrowings	6,408	23,980	97,427	197,278	325,093
Due to related undertakings	-	6	-	-	6
Trade and other payables	4,541	-	-	-	4,541
Total liabilities	414,210	23,986	97,427	197,278	732,901

As at 31 December 2008

	Up to 1 mth £000	1-3 mths £000	3-12 mths £000	1-5 yrs £000	Total £000
Bank overdrafts	448,061	-	-	-	448,061
Interest bearing loans and borrowings	11,612	3,268	81,622	334,896	431,398
Due to related undertakings	4,839	-	-	-	4,839
Trade and other payables	24,079	-	-	-	24,079
Total liabilities	488,591	3,268	81,622	334,896	908,377

Fair values

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

	Note	Carrying amount 2009 £'000s	Fair value 2009 £'000s	Carrying amount 2008 £'000s	Fair value 2008 £'000s
Equity securities available for sale	13	425,861	425,861	532,143	532,143
Equity securities designated at fair value through the profit and loss	13	218	218	63,165	63,165
Debt securities – loans & receivables	13	10,315	10,315	118,773	118,773
Investments held for sale	14	45,256	45,256	-	-
Cash and cash equivalents	16	24,018	24,018	103,332	103,332
Term deposits	16	20,616	20,616	-	-
Unsecured bank facilities	18	(289,090)	(316,645)	(391,960)	(408,035)
Trade and other payables	19	(22,738)	(22,738)	(24,079)	(24,079)
Due to group undertaking		(6)	(6)	(4,839)	(4,839)
Bank overdrafts	16	(403,261)	(403,261)	(448,061)	(448,061)
		(188,811)	(216,366)	(51,526)	(67,601)
Unrecognised losses			(27,555)		(16,075)

Notes to the financial statements (continued)**20. Financial Instruments (continued)****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.

Note 19 provides further information regarding the fair value of financial instruments not traded in active markets, including sensitivity analysis of the key management judgements.

Debt securities

Where the recoverable value of a debt security is considered to be lower than its par value, an impairment has been processed to bring the carrying value down to the recoverable amount. Therefore it is considered that the carrying value of the debt securities approximates the fair value.

Trade and other receivables / payables

For receivables / 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.

Fair value of financial instruments carried at fair value

The table below provides an analysis 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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2009				
Trading and other financial assets at fair value through profit and loss	-	-	26,594	26,594
Available for sale financial assets	10,265	-	415,596	425,861
Financial assets	10,265	-	442,190	452,455

Valuation Hierarchy

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2008				
Trading and other financial assets at fair value through profit and loss	-	-	63,165	63,615
Available for sale financial assets	45,857	-	486,287	532,144
Financial assets	45,857	-	549,452	595,309

Notes to the financial statements (continued)

20. Financial Instruments (continued)

The table below analyses the movements in the Level 3 portfolio.

	Trading and other financial assets at fair value through profit or loss £'000	Available for sale £'000	Total financial assets £'000
At 31 December 2008	63,165	486,287	549,452
Gains/(losses) recognised in:			
- Income statement	(23,029)	(133,796)	(156,825)
- Other comprehensive income	-	53,791	53,791
Additions	-	43,397	43,397
Disposals	(13,542)	(34,083)	(47,625)
Transfers into/(out of) level 3	-	-	-
At 31 December 2009	<u>26,594</u>	<u>415,596</u>	<u>442,190</u>

During 2009 there were no investment securities which were transferred into or out of Level 3 of the fair value hierarchy.

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

	Trading and other financial assets at fair value through profit or loss £'000	Available for Sale Investments £'000	Total financial assets £'000
Total losses included in loss for the period:			
Amounts written of investments	(23,029)	(112,889)	(135,918)
Foreign exchange movement	-	(20,908)	(20,908)
	<u>(23,029)</u>	<u>(133,797)</u>	<u>(156,826)</u>
Total gains included in other comprehensive income for the period, for assets held at the end of the reporting period:			
Changes to fair value in available for sale investments	-	71,183	71,183
Foreign exchange movement	-	(17,392)	(17,392)
	<u>-</u>	<u>53,791</u>	<u>53,791</u>
Amounts included within loss for the period that relate to assets held at year end:			
- impairments	(20,843)	(112,889)	(133,732)
-foreign exchange movement	-	(20,908)	(20,908)
	<u>(20,843)</u>	<u>(133,797)</u>	<u>(154,640)</u>

Notes to the financial statements (continued)**20. Financial Instruments (continued)**

Although the company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3 of the fair value hierarchy, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects:

	Effect on Profit and Loss		Effect on Other Comprehensive Income	
	Favourable £'000	Unfavourable £'000	Favourable £'000	Unfavourable £'000
31 December 2009				
Investment Securities:				
Available for sale financial assets	6,944	-	25,746	-
Fair Value through profit and loss assets	9,274	(10,365)	-	-
	<u>16,218</u>	<u>(10,365)</u>	<u>25,746</u>	<u>-</u>

The favourable and unfavourable effects of using reasonably possible alternative assumptions for investment securities have been calculated by recalibrating the valuation models for the following adjustments.

Key inputs and assumptions used in the valuation models for direct investments at 31 December 2009 include valuation multiples and multiple discounts. The valuation multiples are based on the median of comparator company multiples which are then discounted as appropriate. It is reasonably possible that an alternative discount factor of plus or minus 10% could be applied to the multiple used in these valuations.

In order to value 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. It is reasonably possible that these adjustments were not required.

21. Financial commitments

The Company has committed £1,327,000,000 (2008: £1,258,000,000) as a limited partner in private equity funds of which £163,640,000 (2008: £167,000,000) is undrawn.

Notes to the financial statements (continued)

22. 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. The balances due to Bank of Scotland plc are shown within the notes to the financial statements. Details of the related party transactions during the period are disclosed in the table below:

Nature of transaction	Outstanding balance at 1 January 2009	Outstanding balance at 31 December 2009	Income/(expense) included in the income statement for the year ended 31 December 2009	Disclosure in financial statement	Counterparty
	£'000s	£'000s	£'000s		
Bank balance GBP account	(448,061)	(403,261)		Bank overdraft	Bank of Scotland
Euro term deposit	42,977	27,778		Cash and cash equivalents	Bank of Scotland
USD term deposit	-	9,867		Cash and cash equivalents	Bank of Scotland
Term loans Euro account	(339,086)	(240,058)		Interest bearing loans and borrowing	Bank of Scotland
Term loans USD account	(37,874)	(34,032)		Interest bearing loans and borrowing	Bank of Scotland
Term loans	(15,000)	(15,000)		Interest bearing loans and borrowing	Bank of Scotland
Bank balance Euro account	54,507	4,606		Cash and cash equivalents	Bank of Scotland
Bank balance USD account	5,847	2,383		Cash and cash equivalents	Bank of Scotland
Interest payable			(11,581)	Financial expense	Bank of Scotland
Interest receivable	-	-	386	Income	Bank of Scotland
Accounts payable and amounts due to subsidiaries	4,839	6	-	Due to related undertakings	Bank of Scotland

23. Parent undertakings

As at 31 December 2009 the Company's immediate parent company was Bank of Scotland Plc. The company regarded by the directors as the ultimate parent undertaking and controlling party is Lloyds Banking Group plc (formerly Lloyds TSB Group plc) which is incorporated in Scotland. Lloyds Banking Group plc has produced consolidated accounts for the year ended 31 December 2009. Copies of the annual report and accounts of Lloyds Banking Group plc for the year ended 31 December 2009 may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual 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 elected to prepare the company 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;

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.

Each of the directors, whose names and functions are listed in the directors' report confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the company; and
- the directors' report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR INVESTMENTS PLC

We have audited the financial statements of Uberior Investment Plc for the year ended 2009 which comprise of the Income Statement, Balance Sheet, the Statement of Comprehensive Income, 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 34 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 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.

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 December 2009 and of its loss 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 Directors' Report 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.



Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
29 June 2010