UBERIOR INVESTMENTS PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

MEMBER OF LLOYDS BANKING GROUP

Company Number: SC073998

Directors
J Britton
A J Cumming
A W Géczy
D W Godfrey
G T Tate

Secretary
J E Nielsen

Registered office
Level 1
Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

Auditors
PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
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EH2 4NH

Bankers
Bank of Scotland
Head Office
The Mound
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REPORT OF THE DIRECTORS

The Directors, as listed on page 2, submit their report and audited financial statements of Uberior Investments plc ("the Company") for the year ended 31 December 2010.

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 entered into one new investment and provided follow on financing to existing investments acquired in previous years. Investment additions in the year totalled £70.2m (2009: £47.3m).

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

Results and dividends
The results for the year are shown in the Income Statement on page 8. The Directors do not recommend the payment of a dividend in 2010 (2009: £nil).

Future developments
The Company remains committed to the business of holding investments and will continue to manage existing investments 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 ('the Group'). Exposure to credit 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. The Company is funded by its intermediate parent undertaking and as a result liquidity risk is managed within the Group.

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 plc 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 plc policy in ensuring that all foreign currency investments are matched with borrowings in the same currency, thus no material foreign exchange sensitivity to foreign exchange exposure is considered to exist. The currencies which give rise to the Company's foreign exchange risk are US Dollars and Euros.

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 provided in note 21.

REPORT OF THE DIRECTORS (continued)

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' indemnities
The Directors have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision". This contract came into force during the financial year and remains in force. It is available for inspection at the registered office of Lloyds Banking Group plc.

Performance
The Company's profit before tax for the financial year is £133,065,000 (2009: loss of £289,233,000).

During the year the Company has assessed the requirement for specific impairments. This has resulted in a charge to the Income Statement of £17,390,000 compared to £272,991,000 in 2009. In addition, this year saw an increase in the volume of disposal of investments resulting in profits on disposal of £123,125,000 being recognised in the Income Statement. This compares to £14,640,000 of profits on disposal recognised in 2009. The Company aims to hold each investment for the appropriate time period which will maximise returns to the Lloyds Banking Group plc and therefore profits recognised on disposals can fluctuate year on year.

The Balance Sheet total assets have fallen to £544,984,000 from £595,666,000 in 2009.

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.

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:

Director	Date of Appointment	Date of Resignation
G R A Shankland	-	26 May 2010

The other Directors 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.

Policy and practice on payment of suppliers
The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref. URN 04/606.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the Company owed £9,396 to trade payables as at 31 December 2010 (2009: £9,400), the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is 30 (2009: 30). This bears the same proportion to the number of days in the year as the aggregate of the amounts owed to trade payables at 31 December 2010 bears to the aggregate of the amounts invoiced by suppliers during the year.

REPORT OF THE DIRECTORS (continued)

Auditors and disclosure of information to auditors
PricewaterhouseCoopers LLP are deemed to be re-appointed 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 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,

Director 22 June 2011
TrueH Tate

Company Number: SC073998

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

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

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

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 year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names are listed on the page 2 of the Annual Report and financial statements confirm that:

- to the best of each Directors knowledge that the Company's 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 profit or 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 company, 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 Investments Plc for the year ended 31 December 2010 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 6 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 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.

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 2010 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 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.

H Anderson

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

22 June 2011

INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Income from investments in subsidiaries		-	3,552
Valuation gains / (losses) on investments	13	26,383	(23,029)
Investment income	3	15,594	10,770
		41,977	(8,707)
Profit on disposal of investments		123,125	14,640
Amounts written off associates	10	-	(58,351)
Amounts written off jointly controlled entities	11	(1,551)	(13,697)
Amounts written off subsidiary undertakings	12	-	(545)
Amounts written off investments	13	(15,839)	(200,398)
Total amounts written off		(17,390)	(272,991)
Administrative expenses	5	(3,713)	(7,896)
Other income	4	2,174	2,390
Other expenses	6	(1,013)	(38)
Net other income		1,161	2,352
Operating profit / (loss) before financing costs		145,160	(272,602)
Financing costs	7	(12,095)	(16,631)
Profit / (loss) before tax		133,065	(289,233)
Income tax payable / (recoverable)	8	9,549	(33,763)
Profit / (loss) after tax for the year		123,516	(255,470)
Attributable to:			
Equity holders		123,516	(255,470)
Profit / (loss) for the year		123,516	(255,470)

The notes on pages 13 to 36 form 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 2010

	Note	2010 £'000	2009 £'000
Profit / (loss) for the year		123,516	(255,470)
Other comprehensive income:			
Movements in available for sale financial assets:			
- changes in fair value		62,184	(30,983)
- impairments recognised in the Income Statement		(5,902)	113,126
- realised profits recognised in the Income Statement		(52,414)	(14,198)
- movements in deferred tax		(2,742)	(12,289)
		1,126	55,656
Currency translation differences:			
- currency translation differences, before tax		(2,218)	(17,392)
		(2,218)	(17,392)
Other comprehensive (loss)/income for the year, net of tax		(1,092)	38,264
Total comprehensive income/(loss) for the year		122,424	(217,206)
Attributable to:			
Equity holders		122,424	(217,206)
Total comprehensive income/(loss) for the year		122,424	(217,206)

The notes on pages 13 to 36 form part of these financial statements.

BALANCE SHEET

As at 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Interests in associates	*10*	4	854
Interests in jointly controlled entities	*11*	4	1,555
Investments in subsidiary undertakings	*12*	32,954	32,954
Investments	*13*	401,526	436,394
Total non-current assets		434,488	471,757
Investments held for sale	*14*	75,326	45,256
Cash and cash equivalents	*16*	1,049	24,018
Term deposits	*16*	22,402	20,616
Income tax recoverable	*9*	11,394	34,019
Accrued Interest Income		325	-
Total current assets		110,496	123,909
Total assets		544,984	595,666
Equity			
Issued capital	*17*	2,000	2,000
Reserves		57,399	58,491
Retained earnings		(68,699)	(192,215)
Total equity		(9,300)	(131,724)
Liabilities			
Interest bearing loans and borrowings	*18*	57,711	191,353
Deferred tax liability	*15*	24,191	12,295
Total non-current liabilities		81,902	203,648
Bank overdrafts	*16*	278,868	403,261
Interest bearing loans and borrowings	*18*	178,222	97,737
Due to related undertakings		6	6
Trade and other payables	*19*	15,286	22,738
Total current liabilities		472,382	523,742
Total liabilities		554,284	727,390
Total equity and liabilities		544,984	595,666

The notes on pages 13 to 36 form part of these financial statements.

Approved by the Board of Directors at a meeting held on 22 June 2011 and signed on its behalf by:

Director

Truett Tate

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital £'000	Available for sale reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2009	2,000	20,227	63,255	85,482
Loss for the year				
Loss after taxation	-	-	(255,470)	(255,470)
Other comprehensive income				
Available for sale financial assets	-	55,656	-	55,656
Currency translation differences	-	(17,392)	-	(17,392)
Total other comprehensive income	-	38,264	-	38,264
Total comprehensive income/(loss)	-	38,264	(255,470)	(217,206)
Balance at 1 January 2010	2,000	58,491	(192,215)	(131,724)
Profit for the year				
Profit after taxation	-	-	123,516	123,516
Other comprehensive income				
Available for sale financial assets	-	1,126	-	1,126
Currency translation differences	-	(2,218)	-	(2,218)
Total other comprehensive loss	-	(1,092)	-	(1,092)
Total comprehensive income/(loss)	-	(1,092)	123,516	122,424
Balance at 31 December 2010	2,000	57,399	(68,699)	(9,300)

The notes on pages 13 to 36 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Operating profit / (loss) before financing costs		145,160	(272,602)
Profit on disposal of investments		(123,125)	(14,640)
Amounts written off investments	*13*	15,839	200,398
Amounts written off investments in associates	*10*	-	58,351
Amounts written off investments in jointly controlled entities	*11*	1,551	13,697
Amounts written off investments in subsidiary undertakings	*12*	-	545
Decrease in amounts due to related undertakings		-	(4,834)
Exchange rate movement		1,377	(4,599)
Fair value (gains)/losses through Income Statement		(26,383)	23,029
Decrease in trade and other receivables		329	-
Increase in trade and other payables		2,630	2,278
Cash generated from operations		17,378	1,623
Interest paid		(15,936)	(15,200)
Income taxes repaid		22,247	21,675
Net cash from operating activities		23,689	8,098
Cash flows from investing activities			
Proceeds from sale of subsidiary undertakings		-	302
Proceeds from sale of investments and interests		203,957	107,251
Acquisition of subsidiary undertakings	*12*	-	(302)
Acquisition of investments and interests	*13*	(70,222)	(47,336)
Net cash from investing activities		133,735	59,915
Cash flows from financing activities			
Decrease in borrowings		(53,156)	(102,870)
Increase/(decrease) in term deposits		1,786	(20,616)
Exchange rate movement		(5,975)	26,332
Net cash from financing activities		(57,345)	(97,154)
Net increase/(decrease) in cash and cash equivalents		100,079	(29,141)
Effect of exchange rate fluctuations on cash held		1,345	(5,373)
Cash and cash equivalents at 1 January		(379,243)	(344,729)
Cash and cash equivalents at 31 December	*16*	(277,819)	(379,243)

The notes on pages 13 to 36 form part of these financial statements.

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 June 2011.

(a) Financial statements

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

(b) Statement of compliance

The 2010 statutory financial statements set out on pages 8 to 36 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.

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 value: financial instruments classified as available for sale (AFS), financial instruments held for sale and financial instruments designated at fair values through the profit and 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 2010. None of these standards or amendments had a material impact on these financial statements:

- IAS 1 'Presentation of Financial Statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- IFRS 3 'Business Combinations'. This revised standard applies prospectively to business combinations from 1 January 2010. The revised standard continues to require the use of the acquisition method of accounting for business combinations. 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 non-controlling interest, and all transaction costs are expensed (other than those in relation to the issuance of debt instruments or share capital).

- IFRS 5 'Non-current assets held for sale and discontinued operations'. The amendment specifies the disclosures required in respect of non-current assets classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 and paragraph 125.

- IAS 27 'Consolidated and Separate Financial Statements'. Require 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 remeasured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.

- IAS 36 'Impairment of Assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRIC 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(c) Basis of preparation (continued)

- IFRIC 17 'Distribution of Non-cash Assets to Owners'. 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).
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items'. Clarifies how the principles underlying hedge accounting should be applied in particular situations.
- 'Improvements to IFRS' (issued April 2009). Sets out minor amendments to IFRS standards as part of the annual improvements process.

(d) IFRS and IFRIC not yet applied

The following pronouncements will be relevant to the Company but were not effective at 31 December 2010 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the Company.

Pronouncement	*Nature of change*	*IASB effective date*
IFRS 9 *Financial Instruments: Classification and Measurement*	Replaces those parts of IAS 39 'Financial Instruments: recognition and Measurement' relating to classification, measurement and derecognition of financial assets and liabilities. It 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 instrument. The available-for-sale financial asset and held-to-maturity investment categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39. 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. 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.	Annual periods beginning on or after 1 January 2013
Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*	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.
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	Clarifies that when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor, a gain or loss is recognised in the Income Statement representing the difference between the carrying value of the financial liability and the fair value of the equity instruments issued; the fair value of the financial liability is used to measure the gain or loss where the fair value of the equity instruments cannot be reliably measured. It is consistent with the Company's existing accounting policy.	Annual periods beginning on or after 1 July 2010.
Improvements to IFRSs (issued May 2010)	Sets out minor amendments to IFRS standards as part of the annual improvement process.	Dealt with on a standard by standard basis but none are effective any earlier than annual periods beginning on or after 1 July 2010.
Amendments to IAS 24 *Related Party Disclosures*	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
Amendment to IFRS 7 *Financial Instruments: Disclosures – Disclosures- Transfer of Financial Asset*	Requires additional disclosures in respect of risk exposures arising from transferred financial assets.	1 July 2011

Table note: At the date of this report, IFRS 9, Improvements to IFRSs (Issued May 2010) and Amendments to IFRS 7 are awaiting EU endorsement.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(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 recognised in Other Comprehensive Income and 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 and term deposits 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) 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 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.

Financial assets
On initial recognition, financial assets are classified into fair value through profit or loss, available for sale financial assets or loans and receivables.

Financial instruments at fair value through profit or loss
Financial instruments are classified at fair value through profit or loss 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.

Notes to the financial statements (continued)

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

(g) **Investments (continued)**

Debt 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 upon receipt and taken to interest income through the Income Statement.

Available for sale financial assets
Equity shares that are not classified at fair value through profit or loss are classified as available for sale financial assets and are recognised in the Balance Sheet at their fair value, inclusive of transaction costs. Gains and losses arising from changes in the fair value of investments classified as available for sale are recognised directly in other comprehensive income, until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the Income Statement.

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.

Derecognition of financial assets and liabilities
Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either:

- Substantially all of the risks and rewards of ownership have been transferred; or
- The Cómpany has neither retained nor transferred substantially all the risks and rewards, but has transferred control.

Financial liabilities are derecognised when they are extinguished, cancelled or expire.

(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 plc that are freely available and deposits held within Lloyds Banking Group plc with an original maturity of three months or less.

(j) **Impairment of investments and financial assets**

Subsidiaries
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 impairment is made to reduce the carrying value to the recoverable amount.

Available for sale financial assets
The Company assesses at each Balance Sheet date whether there is objective evidence that an available for sale financial asset is impaired. This assessment involves reviewing whether there has been a significant or prolonged decline in the fair value of the asset below its cost, as further described in critical accounting estimates (at note 1 (q)).

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 asset previously recognised in profit or loss) is reclassified from equity to the Income Statement. Impairment losses recognised in the Income Statement on available for sale financial assets are not reversed through the Income Statement.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(j) Impairment of investments and financial assets (continued)

Debt securities accounted for at amortised cost
At each Balance Sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition and prior to the Balance Sheet date, there is objective evidence that a financial asset has become impaired.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments or principal and/or interest;
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty;
- Restructuring of debt to reduce the burden on the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy or individual voluntary arrangement proceedings.

If there is objective evidence that an impairment loss has been incurred, an allowance is established which is calculated as the difference between the Balance Sheet carrying value of the asset and the present value of the estimated future cash flows discounted at that asset's original effective interest rate and the amount of the impairment loss is recognised in the Income Statement.

For impaired debt instruments which are held at amortised cost, impairment losses are recognised in subsequent periods when it is determined that there has been a further negative impact on expected future cash flows.

At the end of each Balance Sheet date 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.

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)).

(k) 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.

(l) Dividends

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

(m) Trade and other payables

Trade and other payables are stated at cost.

Notes to the financial statements (continued)

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

(n) 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.

(o) 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.

(p) 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 Company 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 Company 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.

(q) 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.

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.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(q) Critical accounting estimates and judgements (continued)

Impairment of debt securities

The Company's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1 (g). The allowance for impairment losses on debt securities is management's best estimate of losses carried at amortised cost. In determining whether impairment has occurred at the Balance Sheet date the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

The determination of these allowances often requires the exercise of considerable judgement by management. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Valuation of financial instruments

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.

Management judgement is required in determining the categorisation 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 there is less judgement 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 2010 the Company classified £455,277 of financial assets (2009: £442,190) 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.

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.

Notes to the financial statements (continued)

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 2010, 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.

3. Investment income

	2010 £'000	2009 £'000
Available for sale financial assets	11,587	5,847
Debt securities held as loans and receivables	1,347	2,529
Bank interest received	2,660	2,394
	15,594	10,770

4. Other income

	2010 £'000	2009 £'000
Agency fees	2,174	2,390

5. Administrative expenses

	2010 £'000	2009 £'000
Management fees	3,713	7,896

G T Tate is employed by a fellow group undertaking and his services to the Company are 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 Wholesale 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.

6. Other expenses

	2010 £'000	2009 £'000
Audit Fee	9	9
Other Expenses	1,004	29
	1,013	38

7. Financing costs

	Note	2010 £'000	2009 £'000
Interest expense		11,114	11,581
Foreign exchange:			
Net ineffectiveness on fair value hedge	*20*	(1)	(54)
Other		982	5,104
Total foreign exchange		981	5,050
Net financing costs		12,095	16,631

Notes to the financial statements (continued)

8. Income tax charge/(credit) recognised in the Income Statement

	2010 £'000	2009 £'000
Current tax		
Current year	-	(11,241)
Adjustments for prior years	395	(17,191)
	395	(28,432)
Deferred tax		
Deferred tax charge/(credit) for the year	3,486	(5,331)
Deferred tax charge in respect of prior years	5,668	-
	9,154	(5,331)
Total income tax charge/(credit) in Income Statement	9,549	(33,763)

During the year group relief of £67,900,557 was surrendered by fellow Group Undertakings to the Company for no payment.

Reconciliation of effective tax rate

The current tax payable is lower (2009: current tax credit - lower) than the standard value of corporation tax in the UK (28%; 2009: 28%) applied to the loss for the year due to the following factors:

	2010 £'000	2009 £'000
Profit / (loss) before tax	133,065	(289,233)
Income tax using the corporation tax rate of 28% (2009: 28%)	37,258	(80,986)
UK dividends received	(277)	(1,747)
Impact of change in rate of Corporation tax	216	-
Book gains covered by indexation / SSE	(15,062)	(3,247)
Amounts written off fixed asset investments	701	31,808
Adjustments for prior years	6,063	(17,191)
Gains claimed for no payment	(19,012)	-
(Gains)/losses which cannot be recognised for tax purposes	(338)	37,600
Total income tax payable/(recoverable)	9,549	(33,763)

Deferred tax recognised in other comprehensive income	2010 £'000	2009 £'000
Relating to equity securities available for sale	2,742	19,410

9. Current tax assets and liabilities

The current tax asset of £11,394,000 (2009: asset - £34,019,000) represents the amount of income taxes receivable in respect of current and prior years.

10. Interests in associates	2010 £'000	2009 £'000
At cost 1 January	854	59,205
Disposals	(850)	-
Amounts written off investments in associates	-	(58,351)
At cost 31 December	4	854

No amounts were written off during 2010. Of the amounts written off during 2009, £57,497,000 relates to a company operating in the construction sector which had been severely impact by the economic downturn.

Notes to the financial statements (continued)

10. Interests in associates (continued)

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

Name of associate entity	Proportion of ownership	Principal business	Incorporated	Reporting date of financial statements
Morston Assets Limited	20.10%	Property Asset Management	UK	31 March

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 profit or loss and are disclosed in note 13.

11. Interests in jointly controlled entities	**2010 £'000**	**2009 £'000**
At cost 1 January	1,555	15,252
Amounts written off investments in jointly controlled entities	(1,551)	(13,697)
At cost 31 December	4	1,555

Of the amounts written off , £1,551,478 in 2010 and £12,995,000 in 2009 relate to companies operating in the travel and tourism 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
Continental Shelf 225 Limited	47.46%	Real Estate	UK	31 March
Aviemore Highland Resort Limited	33%	Hotel Operator	UK	28 September

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	**2010 £'000**	**2009 £'000**
At cost 1 January	32,954	33,505
Additions	-	302
Disposals	-	(6)
Transfers	-	(302)
Amounts written off	-	(545)
At cost 31 December	32,954	32,954

Notes to the financial statements (continued)

12. Investments in subsidiaries (continued)

Details of the subsidiary undertakings are noted below:

Name of company	% of Ordinary shares held	Principal business	Reference date	Country of incorporation
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	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 Fund Holdings Ltd	100	Fund Administration	31 December	UK
BOS Insurance Services Ltd	100	Insurance	31 December	UK

13. Investments

	2010 £'000	2009 £'000
Investments		
Debt securities	20,485	10,315
Equity securities	381,041	426,079
	401,526	436,394
Income statement impairment charge in the year:		
Debt securities	(168)	(87,272)
Equity securities	(15,671)	(113,126)
	(15,839)	(200,398)

Notes to the financial statements (continued)

13. Investments (continued)

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

	2010 £'000	2009 £'000
Gross debt securities		
As at 1 January	34,249	120,614
Exchange translation	(988)	(666)
Additions	14,074	3,928
Disposals	(2,748)	(5,568)
Transfer to investments held for sale	-	(84,059)
As at 31 December	44,587	34,249
Provision for impairment		
As at 1 January	23,934	1,841
New provisions	168	87,272
Transfer to investments held for sale	-	(65,179)
As at 31 December	24,102	23,934
Net debt securities		
As at 31 December	20,485	10,315

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 £13,709,845 (2009: £27,119,000). The remaining gross value is neither past due or impaired.

The movement in equity securities can be summarised as follows:

For the year ended 31 December 2010	Designated at fair value through profit or loss £'000	Available for sale £'000	Total £'000
At 1 January 2010	218	425,861	426,079
Exchange translation	-	(8,460)	(8,460)
Transfers from investments held for sale	20,843	-	20,843
Changes to fair value	26,383	3,868	30,251
Additions & transfers in	13,388	42,759	56,147
Disposals & transfers out	(20)	(52,802)	(52,822)
Amounts written off	-	(15,671)	(15,672)
	60,812	395,555	456,367
Transfer to investments held for sale	-	(75,326)	(75,326)
As at 31 December 2010	60,812	320,229	381,041

Notes to the financial statements (continued)

13. Investments (continued)

For the year ended 31 December 2009	Designated at fair value through profit or loss £'000	Available for sale £'000	Total £'000
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

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 profit for the year of £54,777,055 and a share of net assets of £174,578,428 as at 31 December 2010. 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	49.9%

14. Investments held for sale

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

	Debt securities £'000	Available for sale £'000	Fair value through profit or loss £'000	Total £'000
Opening Balance as at 1 Jan 2009	-	-	-	-
Transfers In	18,880	-	26,376	45,256
Balance as at 31 Dec 2009	18,880	-	26,376	45,256
Transfers In	-	75,326	-	75,326
Transfers Out	-	-	(20,843)	(20,843)
Disposals	(18,880)	-	(5,533)	(24,413)
Balance as at 31 Dec 2010	-	75,326	-	75,326

The investments held for sale in 2009 related to a specific portfolio of investments identified for disposal by management. These were actively marketed during 2009, and a sale was considered to be highly probable at 31 December 2009. During 2010 the majority of investments in this portfolio were disposed, with the remaining assets being transferred out of held for sale, into their original accounting designation. These were excluded from the final disposal transaction under the terms of the ultimate sale agreement.

The transfers into this category in 2010 relate to a specific portfolio of funds identified for disposal by management. A sale agreement was reached prior to year end however the sale was contingent upon obtaining certain consents. These were obtained and transactions completed during January and February 2011 (note 25).

£16,217,000 of cumulative Other comprehensive income has been recognised as at 31 December 2010 in the Available for sales reserve in respect of these assets.

The income and expenses directly relating to this portfolio for the year contributed a profit of £22,807,483 to the net profit before tax for the year.

Notes to the financial statements (continued)

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	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Other	-	-	-	(185)	-	(185)
Equity shares - Available for sale equities	18,415	15,166	(42,606)	(27,276)	(24,191)	(12,110)
Tax assets/(liabilities)	18,415	15,166	(42,606)	(27,461)	(24,191)	(12,295)

Deferred tax assets of £45,165,636 (2009: £65,323,826) 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.

Movement in temporary differences in the year:

For the year ended 31 Dec 2010	**Balance at 1 Jan £'000**	**Recognised in income £'000**	**Recognised in equity £'000**	**Balance at 31 Dec £'000**
Other	(185)	185	-	-
Impairments on available for sale equities	15,166	3,249	-	18,415
	14,981	3,434	-	18,415
Available for sale equities	(27,276)	(12,588)	(2,742)	(42,606)
	(27,276)	(12,588)	(2,742)	(42,606)
Total	(12,295)	(9,154)	(2,742)	(24,191)
For the year ended 31 Dec 2009	**£'000**	**£'000**	**£'000**	**£'000**
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)

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. As a result the company's deferred tax liability reduced by £895,951, resulting in a charge to the Income Statement of £215,809 and a credit to other comprehensive income of £1,111,760.

In his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax to 26% with effect from 1 April 2011. This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011. The additional reduction to 26% is estimated to reduce the net deferred tax liability by a further £895,951 and will be reflected in the financial statements for the year ended 31 December 2011.

The proposed further reductions in the rate of corporation tax by 1% per annum to 23% from 1 April 2014 are expected to be enacted separately each year. The effect of these further changes upon the company's deferred tax balances cannot be reliably quantified at this stage.

Notes to the financial statements (continued)

16. Cash and cash equivalents

	2010 £'000	2009 £'000
Bank balances	1,049	24,018
Bank overdrafts	(278,868)	(403,261)
Cash and cash equivalents in the statement of cash flows	(277,819)	(379,243)

Term deposits of £22,402,387 (2009: £20,616,000) are disclosed separately due to their maturity dates of greater than three months.

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 plc. 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 2010 £'000	Ordinary shares 2009 £'000
On issue at 1 January and at 31 December – fully paid	2,000	2,000

At 31 December 2010, the authorised share capital comprised 2,000,000 £1 Ordinary Shares (2009: 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 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.

	2010 £'000	2009 £'000
Non-current liabilities		
Unsecured bank loans	57,711	191,353
Current liabilities		
Current portion of unsecured bank loans	178,222	97,737
Total	235,933	289,090

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 term loans fall due for repayment at various dates between February 2011 and November 2013. Interest is fixed on each loan at the date the loan is advanced to the Company, with rates ranging from 3.41% to 4.96% (2009: 3.31% to 4.96%).

Notes to the financial statements (continued)

19. Trade and other payables

	2010 £'000	2009 £'000
Accruals and deferred income	15,277	22,729
Creditors	9	9
	15,286	22,738

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. The table below sets out the maximum exposure to credit risk at the Balance Sheet date.

	2010 £'000	2009 £'000
On Balance Sheet:		
Investments - Debt securities	20,485	10,315
Investments held for sale – Debt securities	-	18,880
Cash and cash equivalents	1,049	24,018
Short term deposits	22,402	20,616
	43,936	73,829

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 plc.

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

Internal rating	2010 %	2009 %
Good quality	-	14
Satisfactory quality	58	74
Below standard	42	12

The definitions of internal credit ratings shown in the table above 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.

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)

Notes to the financial statements (continued)

20. Financial instruments (continued)

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.

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.

As the Company does not incur an interest charge in its bank overdraft and all term deposits and Debt securities have fixed interest rates, it is not considered to have any significant interest rate exposure. The sensitivity of the Company's net interest expense over a 12 month period to an immediate up and down of 25 basis points change to all market interest rates as at the Balance Sheet date has been calculated as being insignificant.

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 interest expense.

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 net term loans and deposits with £231,586,000 foreign currency fixed interest term loans being designated in a fair value hedge relationship at year end (2009: £251,445,000 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:

	2010	2009
	£'000	£'000
Foreign exchange gain on hedging instrument	6,241	20,961
Foreign exchange loss on hedged item	(6,242)	(20,907)
Net ineffectiveness on fair value hedge	(1)	54

Notes to the financial statements (continued)

20. Financial instruments (continued)

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 provided in note 21.

At the reporting date the carrying value of equity investments amounted to £456,366,000 (2009: £452,455,000). 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.

	2010 PBT £'000	2010 AFS reserve £'000	2009 PBT £'000	2009 AFS reserve £'000
Unlisted equity investments	30,106	7,888	30,879	13,339
Listed equity investments	60	49	40	987
Held for sale unlisted equity instruments	6,612	921	-	-
	36,778	8,858	30,919	14,326

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 (29%), Healthcare (15%) and Retail and Professional Services (15%), but is otherwise well diversified over a variety of investment sectors.

Geographic exposure is predominantly within the European Union (34%) and the UK (59%) 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 plc company subject to internal limits. Overall liquidity of the Group is managed centrally.

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

As at 31 December 2010	**Up to 1 mth £'000**	**1-3 mths £'000**	**3-12 mths £'000**	**1-5 yrs £'000**	**Total £'000**
Bank overdrafts	278,868	-	-	-	278,868
Interest bearing loans and borrowings	68,033	20,922	106,133	60,162	255,250
Due to related undertakings	-	-	6	-	6
Trade and other payables	2,718	-	-	-	2,718
Total liabilities	**349,619**	**20,922**	**106,139**	**60,162**	**536,842**

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**

Notes to the financial statements (continued)

21. Fair values

The fair values together with the carrying amounts shown in the Balance Sheet are as follows:

	Note	Carrying amount 2010 £'000	Fair value 2010 £'000	Carrying amount 2009 £'000	Fair value 2009 £'000
Equity securities available for sale	*13*	320,229	320,229	425,861	425,861
Equity securities held for sale	*14*	75,326	75,326	27,376	27,376
Equity securities designated at fair value through the profit and loss	*13*	60,812	60,812	218	218
Debt securities – loans & receivables	*13*	20,485	20,485	10,315	10,315
Debt securities held for sale		-	-	18,880	18,880
Cash and cash equivalents	*16*	1,049	1,049	24,018	24,018
Term deposits	*16*	22,402	22,402	20,616	20,616
Unsecured bank facilities	*18*	(235,933)	(251,903)	(289,090)	(316,645)
Trade and other payables	*19*	(15,286)	(15,286)	(22,738)	(22,738)
Due to group undertaking		(6)	(6)	(6)	(6)
Bank overdrafts	*16*	(278,868)	(278,868)	(403,261)	(403,261)
		(29,790)	(45,760)	(188,811)	(216,366)
Unrecognised losses			(15,970)		(27,555)

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**
  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.

- **Held for sale**
  The assets identified above as held for sale relate to the detail in Note 14 and are valued in line with those categorisations detailed below.

- **Term deposits**
  For term deposits with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Notes to the financial statements (continued)

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 2010	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss	-	-	60,812	60,812
Available for sale financial assets	1,090	-	319,139	320,229
Held for sale financial assets	-	-	75,326	75,326
Total financial assets	1,090	-	455,277	456,367

Valuation hierarchy At 31 December 2009	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss	-	-	218	218
Available for sale financial assets	10,265	-	415,596	425,861
Held for sale assets at fair value through profit and loss	-	-	26,376	26,376
Total financial assets	10,265	-	442,190	452,455

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 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, the instrument is considered to be level 2.

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 judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

Notes to the financial statements (continued)

21. Fair values (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	Held 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 (out of)/into level 3	(26,376)	-	26,376	-
At 31 December 2009	218	415,596	26,376	442,190
Gains/(losses) recognised in:				
- Income Statement	26,383	(21,682)	-	4,701
- Other comprehensive income	-	4,561	-	4,561
Additions	13,388	42,760	-	56,148
Disposals	(20)	(46,770)	(5,533)	(52,323)
Transfers (out of)/into level 3	20,843	(75,326)	54,483	-
At 31 December 2010	60,812	319,139	75,326	455,277

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

For the year ended 31 December 2010	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	-	(15,440)	-	(15,440)
Foreign exchange movement	-	(6,242)	-	(6,242)
	-	(21,682)	-	(21,682)
Total gains included in other comprehensive income for the year:				
Amounts written off investments	-	6,779	-	6,778
Foreign exchange movement	-	(2,218)	-	(2,217)
	-	4,561	-	4,561
Amounts included within loss for the year that relate to assets held at year end:				
impairments	-	(15,440)	-	(15,440)
foreign exchange movement	-	(6,242)	-	(6,242)
	-	(21,682)	-	(21,682)
Total gains 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	-	6,779	-	6,778
Foreign exchange movement	-	(2,218)	-	(2,217)
	-	4,561	-	4,561

Notes to the financial statements (continued)

21. Fair values (continued)

For the year ended 31 December 2009	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	(23,029)	(112,889)	-	(135,918)
Foreign exchange movement	-	(20,908)	-	(20,908)
	(23,029)	(133,797)	-	(156,826)
Total gains/(losses) included in other comprehensive income for the year:				
Changes to fair value in available for sale			-	
investments	-	71,183		71,183
Foreign exchange movement	-	(17,392)	-	(17,392)
	-	53,791	-	53,791
Amounts included within loss for the year that relate to assets held at year end:				
impairments	(20,843)	(112,889)	-	(133,732)
foreign exchange movement	-	(20,908)	-	(20,908)
	(20,843)	(133,797)	-	(154,640)
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	-	71,183	-	71,183
Foreign exchange movement	-	(17,392)	-	(17,392)
	-	53,791	-	53,791

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 2010			As at 31 December 2009		
	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 Investments	60,812	20,900	(6,100)	26,594	9,274	(10,365)
Available for sale financial assets						
Equity Investments	394,465	22,830	(15,957)	415,596	6,944	-
Financial assets	455,277	43,700	(22,057)	442,190	16,218	(10,365)

Of the favourable figures from the table above £20,900 would be recognised in the Income Statement (2009: £9,274) and of the unfavourable £6,976 would be recognised in the Income Statement (2009: £10,365).

Of the favourable figures from the table above £22,830 would be recognised in other comprehensive income (2009: £6,944) and of the unfavourable £15,081 would be recognised in other comprehensive income (2009: £0).

Notes to the financial statements (continued)

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 2010, the Company has committed £1,202,960,000 (2009: £1,327,000,000) as a limited partner in private equity funds of which £140,866,000 (2009: £163,640,000) is undrawn.

Notes to the financial statements (continued)

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. The balances due to Bank of Scotland plc and details of the related party transactions during the period are disclosed in the table below:

Nature of transaction	Outstanding balance at 1 January 2010 £'000	Outstanding balance at 31 December 2010 £'000	Income/(expense) included in the Income Statement for the year ended 31 December 2010 £'000	Disclosure in financial statement	Counterparty
Bank balance GBP account	(403,261)	(278,868)	-	Bank overdraft	Bank of Scotland
Euro term deposit	27,778	15,737	-	Term deposits	Bank of Scotland
USD term deposit	9,867	6,665	-	Term deposits	Bank of Scotland
Term loans Euro account	(240,058)	(200,519)	-	Interest bearing loans and borrowing	Bank of Scotland
Term loans USD account	(34,032)	(20,414)	-	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	4,606	663	-	Cash and cash equivalents	Bank of Scotland
Bank balance USD account	2,383	386	-	Cash and cash equivalents	Bank of Scotland
Interest payable	(17,380)	(11,737)	(11,114)	Financial expense	Bank of Scotland
Interest receivable	-	251	1,314	Income	Bank of Scotland
Group Relief of £67,901K was surrendered for no payment per note 8.	-	-	(19,012)	Income tax	
Accounts payable and amounts due to subsidiaries	6	6	-	Due to related undertakings	Bank of Scotland

24. Parent undertakings

As at 31 December 2010 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 which is incorporated in Scotland. Lloyds Banking Group plc has produced consolidated accounts for the year ended 31 December 2010. Copies of the annual report and financial statements of Lloyds Banking Group plc for the year ended 31 December 2010 may be obtained from Lloyds Banking Group plc's head office at 25 Gresham Street, London, EC2V 7HN.

25. Post balance sheet events

Held for sale assets

Subsequent to the year end the majority of the assets classified as held for sale as at 31 December 2010 have been disposed resulting in a net gain of £13.6m being recognised in the Income Statement.