UBERIOR INVESTMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

MEMBER OF LLOYDS BANKING GROUP

Company Number: SC073998

Directors
K M Bothwell
S R Shelley
P A Shepherd

Secretary
P Gittins

Registered office
Level 1
Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

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

STRATEGIC REPORT
For the year ended 31 December 2015

The Directors submit their Strategic Report on Uberior Investments Limited (the "Company") for the year ended 31 December 2015.

Principal activity and future developments
The Company operates as an investment holding company and there has been no change in that activity during the year. The Company remains committed to the business of holding investments and will continue to manage existing investments in the future.

Business review
During the year the Company managed investments for value. On the basis that the Company is an investment holding company, its performance is considered in respect of the underlying investment portfolio performance and valuations. As such, the key financial performance indicators relate to dividend income from subsidiaries, investment gains on disposals, valuation movements taken to profits, including impairments, and to a lesser extent income received from investments.

The Company's profit before tax for the financial year is £134,343,000 (2014: £509,841,000). This profit is largely generated through dividend income from subsidiaries of £101,000,000 (2014: £481,220,000) and valuation movements taken to profits (including impairments) of £32,166,000 (2014: £1,679,000 loss).

During the year the Company disposed of investments totalling £7,305,000 (2014: £29,443,000) which generated gains on disposal of £292,000 (2014: £24,120,000). Investment additions in the year totalled £66,328,000 (2014: £63,425,000).

The Balance Sheet shows a net asset position of £136,652,000 (2014: £250,669,000). This decrease is largely attributable to dividends of £251,000,000 (2014: £453,800,000) paid to the Company's immediate parent undertaking, Bank of Scotland plc partially offset by dividend income from subsidiaries and valuation movements noted above.

The Company's actions are governed by the Codes of Business Responsibility of the ultimate parent undertaking, Lloyds Banking Group plc, which set out clear guidelines for responsible behaviour across the business, including human rights, social, ethical and environmental responsibilities. These guidelines can be viewed in the consolidated annual report and financial statements of Lloyds Banking Group plc.

The Company has no employees (2014: none) and therefore the Directors have not commented on employee matters.

Risk management
The key risks and uncertainties faced by the Company are managed within the framework established for the Lloyds Banking Group plc group of companies ("the Group"). Exposure to credit risk, market risk (including interest rate risk, foreign exchange risk and equity risk) and liquidity risk arises in the normal course of the Company's business. These risks are explained in Note 18 to the financial statements.

By Order of the Board,

KM Bothwell
Director
30 June 2016

Company Number: SC073998
Registered Office: Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE

DIRECTORS' REPORT
For the year ended 31 December 2015

The Directors, as listed on page 2, submit their report and audited financial statements of Uberior Investments Limited ("the Company") for the year ended 31 December 2015.

Incorporation
The Company was incorporated in Scotland on 27 February 1981.

Results and dividends
The profit after tax for the year is £130,767,000 (2014: £504,236,000). In June 2015 the Directors approved the payment of an interim dividend of £251,000,000 (2014: £453,800,000) to its immediate parent company, Bank of Scotland plc.

Going concern
As set out in Note 3 - 'Principles underlying going concern assumption' of the notes to the financial statements, the Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

Directors' indemnities
The Group has granted to the Directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Directors and their interests
The Directors at the date of this report are as stated on page 2. There were no movements in Directors during the year and up to the date of this report.

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

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

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

- 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 they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2015

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

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

By Order of the Board,

KM Bothwell
Director
30 June 2016

Company Number: SC073998
Registered Office: Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE

Independent auditors' report to the members of Uberior Investments Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit and cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Uberior Investments Limited, comprise:

- the Income Statement and Statement of Comprehensive Income for the period then ended;
- the Balance Sheet as at 31 December 2015;
- the Statement of Changes in Equity for the period then ended;
- the Cash Flow Statement for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Uberior Investments Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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.

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30 June 2016

INCOME STATEMENT
For the year ended 31 December

	Note	2015 £000	2014 £000
Investment income	4	**102,212**	487,692
Changes in fair value of investments	12	**32,161**	2,355
Other income	5	**-**	251
Profit on disposal of investments		**292**	24,120
Total income		**134,665**	514,418
Administrative expenses	6	**(177)**	(471)
Impairment reversal/(charge)	7	**5**	(4,034)
Finance costs	8	**(150)**	(72)
Profit before tax		**134,343**	509,841
Income tax charge	9	**(3,576)**	(5,604)
Profit after tax for the year		**130,767**	504,236
Attributable to:			
Owners		**130,767**	504,236
Profit for the year		**130,767**	504,236

The notes on pages 13 to 36 are an integral part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December

	Note	2015 £000	2014 £000
Profit for the year		**130,767**	504,236
Other comprehensive income:			
Movements in available-for-sale financial assets:			
- changes in fair value		**8,829**	330
- amounts recognised in Income Statement		**(292)**	(492)
Currency translation difference before tax		**38**	(437)
Movements in deferred tax	*13*	**(2,359)**	1,376
Other comprehensive income for the year, net of tax		**6,216**	777
Total comprehensive income for the year		**136,983**	505,013
Attributable to:			
Owners		**136,983**	505,013
Total comprehensive income for the year		**136,983**	505,013

The notes on pages 13 to 36 are an integral part of these financial statements.

BALANCE SHEET
As at 31 December

	Note	2015 £000	2014 £000
Assets			
Investments in subsidiary undertakings	*11*	**16,595**	16,595
Investments	*12*	**297,539**	199,680
Cash and cash equivalents	*14*	**-**	77,492
Total assets		**314,134**	293,767
Equity			
Share capital	*15*	**2,000**	2,000
Available-for-sale reserve		**6,581**	365
Retained earnings		**128,071**	248,304
Total equity		**136,652**	250,669
Liabilities			
Interest-bearing loans and borrowings	*16*	**79,357**	34,585
Income tax payable	*9*	**180**	1,526
Deferred tax liability	*13*	**11,759**	5,950
Bank overdraft	*14*	**85,186**	-
Trade and other payables	*17*	**1,000**	1,037
Total liabilities		**177,482**	43,098
Total equity and liabilities		**314,134**	293,767

The notes on pages 13 to 36 are an integral part of these financial statements.

The financial statements on pages 8 to 36 were approved by the Board of Directors and signed on its behalf by:

KM Bothwell
Director
30 June 2016

Company Number: SC073998

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Share capital £000	Available-for-sale reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2014	2,000	(412)	197,868	199,456
Comprehensive income				
Profit for the year	-	-	504,236	504,236
Other comprehensive income	-	777	-	777
Total comprehensive income	-	777	504,236	505,013
Dividends paid	-	-	(453,800)	(453,800)
Balance at 31 December 2014	**2,000**	**365**	**248,304**	**250,669**
Comprehensive income				
Profit for the year	-	-	**130,767**	**130,767**
Other comprehensive income	-	**6,216**	-	**6,216**
Total comprehensive income	-	**6,216**	**130,767**	**136,983**
Dividends paid	-	-	**(251,000)**	**(251,000)**
Balance at 31 December 2015	**2,000**	**6,581**	**128,071**	**136,652**

The notes on pages 13 to 36 are an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 December

	Note	2015 £000	2014 £000
Cash flows from operating activities			
Profit before tax		**134,343**	509,841
Adjustments for non-cash transactions:			
Profit on disposal of investments		**(292)**	(24,120)
Impairments	*7*	**(5)**	4,034
Changes in fair value of investments	*12*	**(32,161)**	(2,355)
Investment income – non-cash transactions		**-**	(253)
Finance costs		**150**	72
Changes in working capital:			
Decrease in trade and other receivables		**-**	13
Decrease in trade and other payables		**(31)**	(117)
Cash generated from operations		**102,004**	487,115
Interest received		**-**	4
Interest paid		**(147)**	(65)
Income taxes paid		**(1,472)**	(5,450)
Net cash from operating activities		**100,385**	481,604
Cash flows from investing activities			
Proceeds from sale of investments		**7,597**	53,557
Acquisition of investments	*12*	**(66,328)**	(63,154)
Net cash used in investing activities		**(58,731)**	(9,597)
Cash flows from financing activities			
Repayment of borrowings		**(3,270)**	(13,218)
Proceeds from borrowings		**50,036**	-
Dividends paid to equity shareholders		**(251,000)**	(453,800)
Net cash used in financing activities		**(204,234)**	(467,018)
Net increase in cash and cash equivalents		**(162,580)**	4,989
Effect of exchange rate fluctuations on cash held		**(98)**	(205)
Cash and cash equivalents at 1 January		**77,492**	72,708
Cash and cash equivalents at 31 December	*14*	**(85,186)**	77,492

The notes on pages 13 to 36 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

1. Significant accounting policies

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

The financial statements were authorised for issue by the Directors on 30 June 2016.

(a) Financial statements
The financial statements of the Company comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement together with the related notes to the financial statements. The financial statements are presented in pounds sterling which is the Company's functional and presentational currency.

(b) Statement of compliance
The 2015 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 (EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The standards applied by the Company are those endorsed by the EU and effective at the date the financial statements are approved by the Board. Consequently, the financial statements comply with International Financial Reporting Standards.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 and similar exemptions available under *IFRS 10 'Consolidated Financial Statements'* from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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

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

The Company has not adopted any new standards during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

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

(d) **Future accounting developments**
The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2015 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments* [1]	IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the company. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change is likely to result in an increase in the Company's balance sheet provisions for credit losses although the extent of any increases will depend upon, amongst other things, the composition of the Company's lending portfolios and forecast economic conditions at the date of implementation. In February 2015, the Basel Committee on Banking Supervision published a consultative document outlining supervisory expectations regarding sound credit risk practices associated with implementing and applying an expected credit loss accounting framework. A final version is expected to be issues at the end of 2015. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018.
IFRS 15 *Revenue from Contracts with Customers* [1]	IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018.

[1] As at the date of this report, this standard is awaiting EU endorsement.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

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

Translation differences on non-monetary financial instruments classified as AFS financial assets are included in the AFS 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 AFS 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 transactions 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 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 AFS asset. The net hedge ineffectiveness is recognised in the Income Statement in 'Finance costs'.

(g) Financial assets and liabilities
The Company determines the classification of its financial assets and liabilities at initial recognition. The Company has classified its financial assets into the following categories: jointly controlled entities and associates, subsidiaries, loans and receivables, fair value through profit or loss and AFS; and financial liabilities as other financial liabilities.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation is discharged), cancelled or expire.

Jointly controlled entities and associates
Joint controlled entities are joint arrangements over which the Company has joint control with other parties and has rights to the net assets of the arrangements. Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control of those policies, and is generally achieved through holding between 20 per cent and 50 per cent of the voting share capital of the entity. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Investments in subsidiary undertakings
Subsidiaries are entities controlled by the Company. The Company controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of these factors. Details of the principal subsidiaries are given in Note 11 to the financial statements. Subsidiaries comprise equity investments in, and capital contributions to, subsidiary entities. These are carried at cost less impairment provisions.

Investments in debt securities
Debt securities not quoted on active market are classified as loans and receivables. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the Balance Sheet at amortised cost using the effective interest rate method less provision for impairment. Income on debt securities is recognised on an effective interest rate basis (see Note 1(n)) where it can be reliably estimated and recognised upon receipt where it cannot be reliably estimated and recorded as Investment income in the Income Statement.

Financial instruments held at fair value through profit or loss
Financial instruments are classified as fair value through profit or loss where they are derivatives such as options or warrants, or where they are designated at fair value through profit or loss by management. They 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. They are initially recognised at fair value and transaction costs are expensed in the Income Statement. Financial instruments measured at fair value through profit or loss are carried on the Balance Sheet at fair value. Any gains and losses arising from change in fair value are recognised in the Income Statement within changes in fair value of investments in the period in which they occur.

Available-for-sale financial assets
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 arising from changes in the fair values are recognised in the Statement of Comprehensive Income and accumulated in the available-for-sale reserve, until the financial asset is either sold or matures, at which time the previously unrealised gains and losses are reclassified from other comprehensive income to profit or loss on disposal of investments in the Income Statement, except for impairment losses which are recognised immediately in the Income Statement as impairment on investment securities. Income from equity shares is recognised in investment income in the period in which they occur.

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

(h) Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

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

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

(k) **Trade and other payables**
Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

(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) **Revenue recognition**
Interest income and expense are recognised in the Income Statement for all interest-bearing financial instruments, using the effective interest method where it can be reliably estimated and recognised on a cash basis where it cannot be reliably measured. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The effective interest rate is calculated on initial recognition of the financial asset or liability by estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts expected to be paid or received by the Company including expected early redemption fees and related penalties and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account in the calculation. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss (see Note 1(p)).

Fees and commission income which are not an integral part of the effective interest rate are generally recognised in the Income Statement within 'Other income' as the related service is provided.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

(p) Impairments

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

Financial assets carried at amortised cost – the criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

(p) Impairments (continued)

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

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

Jointly controlled entities and associates - In assessing whether there is any indication that an asset may be impaired, the Company considers, 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;
- 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;
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

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

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.

(s) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2. Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant judgements made by management in applying Company's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Company's results and financial position, are discussed below.

Critical judgements in applying the entity's accounting policies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Critical accounting estimates and judgements (continued)

(a) Designation of financial instruments (continued)

- All other financial assets are classified as 'available-for-sale'; and
- All other financial liabilities are classified as 'at amortised cost'.

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

Critical accounting estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(b) Impairment of investments

As explained in the accounting policy, investment securities are continually reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset and, in the case of debt securities, non-receipt of due interest or principal repayment, a breach of covenant within the security's terms and conditions or a measurable decrease in the estimated future cash flows since their initial recognition. The disappearance of active markets, declines in market value and ratings downgrades do not in themselves constitute objective evidence of impairment and, unless a default has occurred on a debt security, the determination of whether or not objective evidence of impairment is present at the Balance Sheet date requires the exercise of management judgement.

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

(c) Fair values

In accordance with IFRS 13 *Fair Value Measurement,* the Company categorises financial instruments carried on the Balance Sheet at fair value using a three level hierarchy. Financial instruments categorised as Level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as Level 2 and, in particular, Level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. These valuation techniques involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information.

Valuation techniques for Level 2 financial instruments use inputs that are based on observable market data. Level 3 financial instruments 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. At 31 December 2015 the Company classified £297,539,000 of financial assets (2014: £199,680,000) as Level 3 financial instruments.

The largest asset class classified as Level 3 is the Company's available-for-sale assets. Venture Capital investments are valued using International Private Equity and Venture Capital 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. **Critical accounting estimates and judgements (continued)**

(d) **Deferred tax**

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

3. **Going concern – Principles underlying going concern assumption**

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

4. **Investment income**

	2015	2014
	£000	£000
Dividend income from subsidiaries	101,000	481,220
Available-for-sale financial assets	1,212	6,197
Debt securities held as loans and receivables	-	271
Interest received	-	4
	102,212	487,692

5. **Other income**

	2015	2014
	£000	£000
Agency fees	-	251

6. **Administrative expenses**

	2015	2014
	£000	£000
Management fees	177	471

For the year ended 31 December 2015 and 31 December 2014, the audit fee has been accrued and paid centrally by the Company's intermediate parent, Bank of Scotland plc, which makes no recharge to the Company.

The Company has no employees (2014: nil).

The Directors, who are considered to be key management, received no remuneration in respect of their services to the Company. The emoluments of the 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 the Group and are also substantially engaged in managing their respective business areas within the Group, it is therefore not possible to make an accurate apportionment of Directors emoluments in respect of their services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of the Directors.

7. **Impairment reversal/(charge)**

	Note	2015	2014
		£000	£000
Net impairment reversal/(charge) of investments	*12*	5	(4,034)
		5	(4,034)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

8. Finance costs	Note	2015 £000	2014 £000
Interest expense		147	62
Foreign exchange:			
Net ineffectiveness on fair value hedge	18	(26)	(32)
Other		29	42
Total foreign exchange		3	10
Total finance costs		150	72

9. Taxation	2015 £000	2014 £000
Current tax		
Current year	180	1,344
Adjustments in respect of prior years	(54)	2,709
	126	4,053
Deferred tax		
Deferred tax charge for the year	3,989	1,667
Impact of change in tax rate	(539)	(116)
	3,450	1,551
Total income tax (credit) / charge	3,576	5,604

Reconciliation of effective tax rate

The income tax charge (2014: charge) is better (2014: better) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%) applied to the profit for the year due to the following factors:

	2015 £000	2014 £000
Profit before tax	134,343	509,841
Income tax using the corporation tax rate of 20.25% (2014: 21.5%)	27,204	109,616
UK dividends received not taxable	(20,453)	(103,462)
Impact of change in rate of corporation tax	(539)	(116)
Tax losses where no DT recognised (previously unrecognised)	(2,523)	2,177
Adjustments for prior years	(54)	2,709
Gains exempt or covered by capital losses	(59)	(5,320)
Total income tax charge	3,576	5,604

The current tax liability of £180,000 (2014: £1,526,000) represents the amount of income taxes payable in respect of current and prior years.

10. Interests in jointly controlled entities

The Company holds a number of investments in jointly controlled entities. In both the current year and prior year these had been fully impaired with no movements in the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

11. Investments in subsidiary undertakings

	2015 £000	2014 £000
As at 1 January	**16,595**	26,708
Disposals	-	(10,113)
As at 31 December	**16,595**	16,595

During 2014 the company disposed of Uberior Fund Manager Limited for a consideration of £26,391,000 (resulting in a gain on disposal of £16,291,000) and Uberior Fund Holdings Limited for a consideration of £1 (resulting in a loss on disposal of £13,000).

Details of the subsidiary undertakings are noted below.

At 31 December 2015, the Company held 100% of the ordinary shares in each of the companies listed:

Name of company	Principal business	Reference date	Country of incorporation
Tantallon Investments Inc	Investment	31 December	USA
Bank of Scotland Capital Funding LP	Debt Issuance	31 December	Jersey
HBOS Capital Funding LP	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding No 1 LP	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding No 3 LP	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding No 4 LP	Investment / Debt Issuance	31 December	Jersey
Uberior Fund Investments Limited	Investment	31 December	UK
Uberior Infrastructure Investments Limited	Investment	31 December	UK
Uberior Ventures Limited	Investment	31 December	UK
BOS Edinburgh No. 1 Limited	Investment	31 December	UK
Bank of Scotland Insurance Services Limited	Insurance	31 December	UK
Prestonfield Investments Limited	Investment	31 December	UK
Uberior Equity Limited	Investment	31 December	UK

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

12. Investments

	2015 £000	2014 £000
Investments		
Debt securities	-	-
Equity securities	297,539	199,680
	297,539	199,680
Income Statement impairment reversal/(charge) in the year:		
Debt securities	5	72
Equity securities	-	(4,106)
	5	(4,034)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

12. Investments (continued)

(a) Debt securities
The movement in debt securities classified as loans and receivables can be summarised as follows:

	2015 £000	2014 £000
Gross debt securities		
As at 1 January	**41,742**	52,250
Exchange translation	**-**	(170)
Additions	**-**	271
Disposals	**(5)**	(10,609)
As at 31 December	**41,737**	41,742
Provision for impairment		
As at 1 January	**41,742**	41,814
Release of provisions on disposal	**(5)**	(72)
As at 31 December	**41,737**	41,742
Net debt securities		
As at 31 December	**-**	-

(b) Equity securities
The movement in equity securities can be summarised as follows:

For the year ended 31 December 2015	**Designated at fair value through profit or loss £000**	**Available-for-sale £000**	**Total £000**
At 1 January 2015	**30,517**	**169,163**	**199,680**
Exchange translation	**-**	**(1,900)**	**(1,900)**
Movements in AFS equity securities	**-**	**8,575**	**8,575**
Changes to fair value	**32,161**	**-**	**32,161**
Additions	**-**	**66,328**	**66,328**
Disposals	**-**	**(7,305)**	**(7,305)**
As at 31 December 2015	**62,678**	**234,861**	**297,539**

For the year ended 31 December 2014	**Designated at fair value through profit or loss £000**	**Available-for-sale £000**	**Total £000**
At 1 January 2014	28,789	121,099	149,888
Exchange translation	-	(2,657)	(2,657)
Movements in AFS equity securities	-	(162)	(162)
Changes to fair value	2,355	-	2,355
Additions	-	63,154	63,154
Disposals	(627)	(8,165)	(8,792)
Amounts written off	-	(4,106)	(4,106)
As at 31 December 2014	30,517	169,163	199,680

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

12. Investments (continued)

(b) Equity securities (continued)

The Company has a number of significant holdings that are accounted for as fair value investments. If these holdings were accounted for as associates the Company would have recognised additional profit for the year of £4,219,000 (2014: losses of £295,000) and a share of net assets of £194,473,000 as at 31 December 2015 (2014: £85,348,000). Significant holdings which are material to the Company are disclosed below:

Company	**% of Capital Held**
BoS Mezzanine Partners Fund, L.P.	49.99%
Business Growth Fund plc	23.98%

13. Deferred tax asset and liabilities

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

	Assets		**Liabilities**		**Net**	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
AFS equities	-	-	**(2,450)**	(91)	**(2,450)**	(91)
Designated at fair value through profit or loss equities	-	-	**(11,757)**	(5,943)	**(11,757)**	(5,943)
Other	**2,448**	84	-	-	**2,448**	84
Total	**2,448**	84	**(14,207)**	(6,034)	**(11,759)**	(5,950)

Movement in temporary differences in the year	**Balance at 1 Jan 2015 £000**	**Recognised in income £000**	**Recognised in equity £000**	**Balance at 31 Dec 2015 £000**
Impairments on AFS equities	**84**	**2,364**	**-**	**2,448**
AFS equities	**(91)**	**-**	**(2,359)**	**(2,450)**
Designated at fair value through profit or loss equities	**(5,943)**	**(5,814)**	**-**	**(11,757)**
Total	**(5,950)**	**(3,450)**	**(2,359)**	**(11,759)**

Movement in temporary differences in the prior year	Balance at 1 Jan 2014 £000	Recognised in income £000	Recognised in equity £000	Balance at 31 Dec 2014 £000
Impairments on AFS equities	1,290	(1,206)	-	84
AFS equities	(1,467)	-	1,376	(91)
Designated at fair value through profit or loss equities	(5,598)	(345)	-	(5,943)
Total	(5,775)	(1,550)	1,376	(5,950)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

13. Deferred tax asset and liabilities (continued)

The Finance Act 2013 was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015. The Act reduced the main rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

Deferred tax assets of £10,363,000 (2014: £12,600,000) relating to assets carried at amortised cost or fair value have not been recognised on the basis that the company has insufficient forecast taxable profits to recover the assets in future periods. Once crystallised, following disposal of the assets, capital losses can be carried forward indefinitely.

14. Cash and cash equivalents

	Note	**2015** £000	2014 £000
Bank balances	*21*	-	77,492
Bank overdraft	*21*	(85,186)	-
		(85,186)	77,492

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

15. Capital and reserves

Capital risk management
The distributable reserves of the Company are managed through the Lloyds Banking Group plc Capital and Funding Policy in order to maximise capital efficiency within the Group. Dividends are paid from reserves available for distribution to the parent undertaking as reported by the previously approved annual report and financial statements 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

	2015	2014
Ordinary shares	**£000**	£000
In issue at 1 January and at 31 December – fully paid	2,000	2,000

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 AFS reserve includes the cumulative net change in the fair value of AFS investments until the investment is derecognised through disposal or becomes impaired.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

16. Interest-bearing loans and borrowings

	2015	2014
	£000	£000
Unsecured bank loans	**79,357**	34,585

Terms and debt repayment schedule
The term 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 from 22 January 2016 to 22 April 2016 (2014: 27 January 2015). Interest is fixed on each loan at the date the loan is advanced to the Company, with a rates ranging from 0% to 0.59% (2014: 0.03%).

The carrying amounts of the Company's borrowings denominated in Euros are £29,357,000 (2014: £34,585,000) and the carrying amounts denominated in pound sterling are £50,000,000 (2014: £nil).

17. Trade and other payables

	2015	2014
	£000	£000
Accruals and deferred income	**1,000**	1,037

18. Financial instruments

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including interest rate risk, foreign exchange risk, and equity risk) and liquidity risk and these risks are managed within the framework established for the Group. Risk management within the Group is carried out by a central treasury department ("Group Treasury"). Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Credit risk
Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business, 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.

	Note	2015	2014
		£000	£000
On Balance Sheet:			
Bank balances	*14*	-	77,492
		-	77,492

Cash and cash equivalents representing the intercompany balances within the Group have an internal credit rating of better than satisfactory.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

18. Financial instruments (continued)

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

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

At the reporting date, the Company's exposure to market risk arose from foreign exchange and equity risk.

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

As the Company's interest-bearing loans and borrowings have fixed interest rates, it is not considered to have any significant interest rate exposure.

Foreign exchange risk
Foreign exchange risk arises on monetary financial assets (included in "investments", and "cash and cash equivalents") and borrowings denominated in a currency other than Pounds Sterling. The currency giving rise to this risk is the Euro. The Company follows a policy of ensuring that all foreign currency financial assets are matched with borrowings in the same currency, thus minimal sensitivity to foreign exchange exposure is considered to exist. When there is an impairment of an available-for-sale non monetary asset the impairment is calculated in functional currency and therefore includes some of the impact of foreign currency translation.

The Company operates a fair value hedge to mitigate the foreign exchange risk arising from the impaired historic cost of available-for-sale equity instruments. This risk is hedged through a net portfolio of foreign currency fixed interest borrowings and deposits with £29,357,000 foreign currency fixed interest term loans being designated in a fair value hedge relationship at year end (2014: £34,585,000).

The fair value hedge results in foreign exchange gains or losses on the hedged portion of AFS assets being transferred out of the AFS reserve in equity and classified in the 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:

	2015	2014
	£000	£000
Foreign exchange gain on hedging instrument	**1,926**	2,253
Foreign exchange loss on hedged item	**(1,900)**	(2,221)
Net ineffectiveness on fair value hedge	**26**	32

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

18. Financial instruments (continued)

Equity risk
Equity risk exists from the Company's exposure to unlisted equity securities. 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 and in Note 19 to the financial statements. At the reporting date the carrying value of equity investments amounted to £297,539,000 (2014: £199,680,000). 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 AFS investments will be recognised in other comprehensive income through the 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.

	2015 PBT £000	**2015 AFS reserve £000**	2014 PBT £000	2014 AFS reserve £000
Unlisted equity investments	22,163	7,591	19,802	166

The investment portfolio remains well diversified across fund managers and underlying investment sector.

The underlying investment sector has concentrations around Retail and Professional Services 49% (2014: 53%), Manufacturing 7% (2014: 12%), and Healthcare 4% (2014: 6%), but is otherwise well diversified over a variety of investment sectors.

Geographic exposure is wholly within the UK 100% (2014: 100%) 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 Group 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 2015	**Up to 1 month £000**	**1-3 months £000**	**3-12 months £000**	**1-5 years £000**	**> 5 years £000**	**Total £000**
On Balance Sheet						
Interest-bearing loans & borrowing	21,725	50,000	7,632	-	-	79,357
Trade and other payables	1,000	-	-	-	-	1,000
Off Balance Sheet						
Undrawn financial commitments	44,248	30,000	-	77,218	-	151,466
Total liabilities	66,973	80,000	7,632	77,218	-	231,823

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

18. Financial instruments (continued)

As at 31 December 2014	Up to 1 month £000	1-3 months £000	3-12 months £000	1-5 years £000	> 5 years £000	Total £000
On Balance Sheet						
Interest-bearing loans & borrowing	34,585	-	-	-	-	34,585
Trade and other payables	1,037	-	-	-	-	1,037
Off Balance Sheet						
Undrawn financial commitments	45,567	-	42,500	120,036	10,468	218,571
Total liabilities	81,189	-	42,500	120,036	10,468	254,193

19. Fair values

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

	Note	**Carrying amount 2015 £000**	**Fair value 2015 £000**	Carrying amount 2014 £000	Fair value 2014 £000
Equity securities - AFS	*12*	**234,861**	**234,861**	169,163	169,163
Equity securities designated at fair value through the profit and loss	*12*	**62,678**	**62,678**	30,517	30,517
Bank balances	*14*	**-**	**-**	77,492	77,492
Bank overdraft	*14*	**(85,186)**	**(85,186)**	-	-
Interest-bearing loans and borrowings	*16*	**(79,357)**	**(79,357)**	(34,585)	(34,585)
Trade and other payables	*17*	**(1,000)**	**(1,000)**	(1,037)	(1,037)
		131,996	**131,996**	241,550	241,550
Unrecognised gains/(losses)			**-**		-

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 unlisted equity securities is calculated in accordance with the Group valuation policy and 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 if necessary, to align valuation techniques with the Group valuation policy. For direct investments, a valuation is calculated using a methodology based on applying comparable sector multiples to the investment's maintainable earnings.

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

- **Bank balances and bank overdraft**
  The fair value of bank balances and bank overdraft is considered to be equal to their carrying value.

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

- **Interest-bearing loans and borrowings**
  Fair value is calculated based on discounted expected future principal and interest cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

19. 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 inputs to fair value are observable.

Valuation hierarchy	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
At 31 December 2015		**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss		-	-	**62,678**	**62,678**
Available-for-sale financial assets		-	-	**234,861**	**234,861**
Total financial assets	*12(b)*	-	-	**297,539**	**297,539**

Valuation hierarchy	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
At 31 December 2014		**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss		-	-	30,517	30,517
Available-for-sale financial assets		-	-	169,163	169,163
Total financial assets	*12(b)*	-	-	199,680	199,680

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

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

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

Level 3 portfolios
Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments 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.The following table shows the reconciliation from the opening balances to the closing balances for fair value movement in Level 3 of the fair value hierarchy:

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

19. Fair values (continued)

	Trading and other financial assets at fair value through profit or loss £000	Available -for- sale £000	Total financial assets £000
At 1 January 2015	**30,517**	**169,163**	**199,680**
Gains/(losses) recognised in:			
- Income Statement	**32,161**	**(1,900)**	**30,261**
- Other comprehensive income	**-**	**8,575**	**8,575**
Additions	**-**	**66,328**	**66,328**
Disposals	**-**	**(7,305)**	**(7,305)**
At 31 December 2015	**62,678**	**234,861**	**297,539**
For assets held at the end of the reporting year:			
Total gains / (losses) included in Income Statement for the year	**32,161**	**(1,900)**	**30,261**
Total gains included in other comprehensive income for the year	**-**	**8,575**	**8,575**

	Trading and other financial assets at fair value through profit or loss £000	Available -for- sale £000	Total financial assets £000
At 1 January 2014	28,789	121,099	149,888
Gains/(losses) recognised in:			
- Income Statement	2,355	(6,326)	(3,971)
- Other comprehensive income	-	(599)	(599)
Additions	-	63,154	63,154
Disposals	(627)	(8,165)	(8,792)
At 31 December 2014	30,517	169,163	199,680
For assets held at the end of the reporting year:			
Total gains / (losses) included in Income Statement for the year	1,728	(6,327)	(4,599)
Total losses included in other comprehensive income for the year	-	(599)	(599)

Although the Company believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

19. Fair values (continued)

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

	As at 31 December 2015			As at 31 December 2014		
	Fair value £000	**Favourable changes £000**	**Unfavourable changes £000**	Fair value £000	Favourable changes £000	Unfavourable changes £000
Financial assets at fair value through profit or loss						
Equity securities	**62,678**	**8,536**	**(8,402)**	30,517	6,577	(6,093)
Available-for-sale financial assets						
Equity securities	**234,861**	**19,656**	**(23,480)**	169,163	388	(1,567)
Financial assets	**297,539**	**28,192**	**(31,882)**	199,680	6,965	7,660

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

The main instruments 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 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 International Private Equity and Venture Capital Guidelines the values of underlying investments in these portfolios have been considered, and possible alternatives considered on both a positive and negative basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

20. Financial commitments

As at 31 December 2015, the Company has undrawn commitments in private equity funds of £151,466,000 (2014: £218,571,000). Of these, the main undrawn commitments are described below:

Business Growth Fund
In May 2011, the Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to commit up to £300,000,000 of equity investment by subscribing for shares in the Business Growth Fund plc which is the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association Taskforce Report of October 2010. At 31 December 2015, the Group had invested £176,282,000 (2014: £117,782,000) in the Business Growth Fund and carried the investment at a fair value of £169,501,000 (2014: £105,064,000). Remaining commitments totalled £123,718,000.

Big Society Capital
In January 2012 the Group agreed, together with The Royal Bank of Scotland plc (and two other non-related parties), to commit up to £50,000,000 each of equity investment into the Big Society Capital Fund. The Fund, which was created as part of the Project Merlin arrangements, is a UK social investment fund and was officially launched on 3 April 2012. At 31 December 2015, the Group had invested £35,601,000 (2014: £30,500,000) and carried the investment at a fair value of £34,315,000 (2014: £29,883,000). Remaining commitments totalled £14,399,000.

21. 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 Company also has related party relationships with its subsidiary undertakings, which have arisen due to the provision of funding to these companies. Details of the related party balances and transactions during the year are disclosed in the table below:

Nature of transaction	**Outstanding balance at 31 December 2015**	Outstanding balance at 31 December 2014	**Income/ (expense) included in the Income Statement for the year ended 31 December 2015**	Income/ (expense) included in the Income Statement for the year ended 31 December 2014	Disclosure in financial statements	Counter-party
	£000	£000	**£000**	£000		
Bank balance	-	77,492	-	-	Bank balances	Bank of Scotland plc
Bank overdraft	**(85,186)**	-	-	-	Bank overdraft	Bank of Scotland plc
Term loans	**(79,357)**	(34,585)	-	-	Interest-bearing loans and borrowings	Bank of Scotland plc
Interest payable	-	-	**(147)**	(62)	Trade & other payables/ Finance costs	Bank of Scotland plc
Interest receivable	-	-	-	4	Investment income	Bank of Scotland plc
Management Fees	-	-	-	(377)	Trade & other payables/ Administrative expenses	Uberior Fund Manager Ltd [1]

Transactions with fellow subsidiary undertakings

The income tax payable by the Company relates to group relief payable to fellow subsidiary undertakings. The outstanding balance at the end of the year was £180,000 (2014: £1,526,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

21. Related parties (continued)

Dividends received from subsidiary undertakings

The following dividends have been received from subsidiary undertakings:

Subsidiary	2015	2014
	£000	£000
Uberior Infrastructure Investments Ltd	**40,000**	86,100
Uberior Equity Ltd	**15,000**	143,000
Uberior Fund Investments Ltd	**11,000**	-
Prestonfield Investments Ltd	**35,000**	-
Uberior Ventures Ltd	-	134,000
Bos Edinburgh Ltd	-	90,700
Uberior Fund Holdings Ltd[1]	-	14,870
Uberior Fund Manager Ltd[1]	-	12,550

[1] The Company's interests in Uberior Fund Manager Limited and Uberior Fund Holdings Limited were sold on 1st May 2014. The related party transactions above took place while these were still wholly owned subsidiaries of the Company.

22. Contingent liabilities

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £16,421,000 (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

23. Dividends

In June 2015 the Directors approved the payment of an interim dividend of £251,000,000 (December 2014: £453,800,000) to its immediate parent company, Bank of Scotland plc.

24. Parent undertakings

The Company's immediate parent undertaking is Bank of Scotland plc.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is Bank of Scotland plc.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and financial statements of both companies may be downloaded via www.lloydsbankinggroup.com.