

UBERIOR VENTURES LIMITED  
REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

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27/09/2012

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COMPANIES HOUSE

Company Number SC235067

Directors

B S Anderson  
K M Bothwell  
D K Gateley  
J B Molony  
N Moss

Company Secretary

J E Nielsen

Registered Office

Level 1  
Citymark  
150 Fountainbridge  
EDINBURGH  
EH3 9PE

**DIRECTORS' REPORT****For the year ended 31 December 2011**Directors

B S Anderson  
K M Bothwell  
D K Gateley

J B Molony  
N Moss

The Directors submit their report and audited accounts of Uberior Ventures Limited ("the Company") for the year ended 31 December 2011.

Principal activity

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

Business review

During the year the Company continued to manage investments for value and where appropriate supported the investments with additional funding.

The business is funded by the Company's intermediate parent undertaking.

Risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the Lloyds Banking Group. Exposure to credit risk, interest rate risk and foreign exchange risk arises in the normal course of the Company's business. These risks are discussed below and supplementary qualitative and quantitative information is provided in Note 21 to the financial statements. The Company is funded by its intermediate parent undertaking and as a result liquidity risk is managed within the Lloyds Banking Group ("the Group").

Credit risk

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

Interest rate risk

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

Foreign exchange risk

Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The Company follows Lloyds Banking Group policy in ensuring that all foreign currency investments are matched with borrowings in the same currency, thus no sensitivity to foreign exchange exposure is considered to exist. The currency which gives rise to the Company's foreign exchange risk is the Euro.

**DIRECTORS' REPORT (continued)**  
**For the year ended 31 December 2011**Performance

The Company's loss before tax for the financial year is £3,835,131 (2010: profit before tax £5,166,912). This represents a decrease in profit before tax of 174% (2010: increase 101%).

In 2011, the Company has assessed the requirement for impairment of investment securities and loans receivable. In 2010 £15,653,975 was charged to the income statement while this year a charge of £21,101,482 has been incurred. Fluctuations in the underlying performance of investments have resulted in an increase over the year.

During the current year the Company disposed of investments which resulted in a gain on disposal of £9,711,166 being recognised in the income statement. This compares to a £8,333,978 gain on disposal recognised in 2010. The Company aims to hold each investment for the appropriate time period which will maximise returns to Lloyds Banking Group plc and therefore profits recognised on disposals can fluctuate year on year.

The balance sheet shows total assets of £168,729,918 in 2011 compared to £359,828,035 in 2010. The decrease is partly attributable to the level of impairments of investments securities in the year of £21,101,482 (2010: £15,653,975) as a result of the economic downturn. The decrease is also attributable to net disposals of investments in associates and in jointly controlled entities of £17,333,915 (2010: net acquisitions £1,064,832) and net disposals and fair value adjustments of debt securities and equity shares of £56,124,110 (2010: net acquisitions £43,733,839). Investment in subsidiary undertakings has decreased by £1 (2010: decrease £156,448) as the Company disposed of Uberior Jersey Limited and Quill Securities Limited during the year. The current year decrease in corporation tax recoverable of £190,966,507 to £3,135,989 (2010: £194,102,496) is attributable to receipts of Group relief during 2011 and includes a prior year adjustment of £1,636,735 (2010: £19,641,041).

During 2011 the Company's intermediary parent company, Bank of Scotland plc, agreed to unconditionally and irrevocably release the Company from its obligations to repay the sum of £968,009,812 in respect of the bank overdraft position held by the Company. This has been recognised as a capital contribution in 2011, resulting in an increase in the total equity position of £968,009,812.

The Company is reviewed through a Monthly Management meeting and the performance is reviewed through a Monthly Portfolio meeting and a Quarterly Valuation committee.

Future developments

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

Results and dividends

The profit after tax for the year is £2,648,224 (2010: profit of £7,124,133). The Directors do not recommend the payment of a dividend in 2011 (2010: £nil).

Going concern

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

**DIRECTORS' REPORT (continued)**  
**For the year ended 31 December 2011**Directors and their interests

The Directors at the date of this report are stated above.

Dates of appointments and resignations during the year, or subsequent to the year end, are as follows:

<u>Director</u>	<u>Date of appointment</u>	<u>Date of resignation</u>
A J Cumming	-	6 February 2012

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 no amounts to trade creditors as at 31 December 2011, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2010: nil).

Directors' indemnity

The Directors have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision". This contract was in force during the financial year and remains in force.

Auditors and disclosure of information to Auditors

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

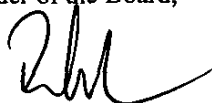
This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

**DIRECTORS' REPORT (continued)**  
**For the year ended 31 December 2011**

Auditors and disclosure of information to Auditors (continued)

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

By Order of the Board,



Bruce Anderson  
Director

11<sup>th</sup> May 2012

Company Number SC235067

Registered Office

Level 1  
Citymark  
150 Fountainbridge  
EDINBURGH  
EH3 9PE

**INCOME STATEMENT****For the year ended 31 December 2011**

	Note	2011 £	2010 £
Investment income	4	2,506,211	5,213,273
Income from investment in associates		393,115	44,903
Income from investment in jointly controlled entities		5,050,172	6,560,000
Income from investment in subsidiary undertakings		-	211,441
		<u>7,949,498</u>	<u>12,029,617</u>
<b>Profit on disposal of equity investments</b>		<b>9,745,459</b>	<b>8,333,073</b>
<b>(Loss)/profit on disposal of debt securities</b>		<b>(34,293)</b>	<b>905</b>
Net reversal of impairments/(impairments) of associates	11	151,801	(3,438,624)
Net impairments of jointly controlled entities	12	(49,189)	(844,737)
Impairments of investments	14	(21,204,094)	(11,172,915)
Impairments of amounts due by subsidiary undertakings	24	-	(197,699)
<b>Total impairments</b>		<b>(21,101,482)</b>	<b>(15,653,975)</b>
<b>Administrative expenses</b>	5	<b>(269,441)</b>	<b>(753,466)</b>
Other income	6	1,315,861	2,894,494
Other expenses	7	(32,348)	(9,400)
<b>Net other income</b>		<b>1,283,513</b>	<b>2,885,094</b>
<b>Operating (loss)/profit before finance costs</b>		<b>(2,426,746)</b>	<b>6,841,248</b>
Finance income	8	75,070	18,625
Finance costs	8	(1,483,455)	(1,692,961)
<b>Net finance costs</b>	8	<b>(1,408,385)</b>	<b>(1,674,336)</b>
<b>(Loss)/profit before tax</b>		<b>(3,835,131)</b>	<b>5,166,912</b>
Income tax credit	9	6,483,355	1,957,221
<b>Profit after tax for the year</b>		<b>2,648,224</b>	<b>7,124,133</b>
<b>Attributable to:</b>			
Equity shareholder		<u>2,648,224</u>	<u>7,124,133</u>
<b>Profit for the year</b>		<b>2,648,224</b>	<b>7,124,133</b>

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

The operating (loss)/profit for the year arises from the Company's continuing operations.

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2011**

	2011 £	2010 £
<b>Profit for the year</b>	<b>2,648,224</b>	<b>7,124,133</b>
<b>Other comprehensive income:</b>		
Movements in revaluation reserve in respect of available for sale financial assets:		
- changes in fair value	570,758	928,851
- transferred to income statement in respect of disposals	-	(1,098,123)
- transferred to income statement in respect of impairments	-	(100,000)
- taxation	(136,005)	78,738
<b>Other comprehensive income for the year, net of tax</b>	<b>434,753</b>	<b>(190,534)</b>
<b>Total comprehensive income for the year</b>	<b>3,082,977</b>	<b>6,933,599</b>
<b>Total comprehensive income attributable to equity shareholder</b>	<b>3,082,977</b>	<b>6,933,599</b>
<b>Total comprehensive income for the year</b>	<b>3,082,977</b>	<b>6,933,599</b>

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

**BALANCE SHEET**  
As at 31 December 2011

	Note	2011 £	2010 £
<b>Assets</b>			
Investment in associates	11	5,235,852	5,084,051
Investment in jointly controlled entities	12	8,953,976	26,337,080
Investment in subsidiary undertakings	13	5	6
Investments	14	56,939,397	134,267,601
Income tax receivable	10	3,135,989	194,102,496
<b>Total non-current assets</b>		<b>74,265,219</b>	<b>359,791,234</b>
Cash and cash equivalents	17	94,155,849	-
Trade and other receivables	16	308,850	36,801
<b>Total current assets</b>		<b>94,464,699</b>	<b>36,801</b>
<b>Total assets</b>		<b>168,729,918</b>	<b>359,828,035</b>
<b>Equity</b>			
Share capital	18	1	1
Available for sale reserve		678,727	243,974
Capital reserve	18	968,009,812	-
Retained earnings		(925,655,769)	(928,303,993)
<b>Total equity</b>		<b>43,032,771</b>	<b>(928,060,018)</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	19	3,748,284	13,821,155
Deferred tax liability	15	13,133,651	19,004,383
<b>Total non-current liabilities</b>		<b>16,881,935</b>	<b>32,825,538</b>
Cash and cash equivalents	17	-	1,159,972,213
Interest-bearing loans and borrowings	19	9,676,728	16,149,175
Trade and other payables	20	19,410,727	40,514,163
Amounts due to subsidiary undertakings	24	79,727,757	38,426,964
<b>Total current liabilities</b>		<b>108,815,212</b>	<b>1,255,062,515</b>
<b>Total liabilities</b>		<b>125,697,147</b>	<b>1,287,888,053</b>
<b>Total equity and liabilities</b>		<b>168,729,918</b>	<b>359,828,035</b>

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

The financial statements on pages 7 to 38 were approved by the Board of Directors on 11<sup>th</sup> May 2012 and were signed on its behalf by:



Bruce Anderson  
Director

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2011**

	Share Capital £	Available for Sale Reserve £	Capital Reserve £	Retained Earnings £	Total Equity £
<b>Balance at 1 January 2010</b>	1	434,508	-	(935,428,126)	(934,993,617)
<b>Profit for the year</b>					
Profit after taxation	-	-	-	7,124,133	7,124,133
<b>Other comprehensive income</b>					
Available for sale financial assets	-	(190,534)	-	-	(190,534)
<b>Total comprehensive income</b>	-	(190,534)	-	7,124,133	6,933,599
<b>Balance at 1 January 2011</b>	1	243,974	-	(928,303,993)	(928,060,018)
<b>Profit for the year</b>					
Profit after taxation	-	-	-	2,648,224	2,648,224
<b>Other comprehensive income</b>					
Available for sale financial assets	-	434,753	-	-	434,753
<b>Total comprehensive income</b>	-	434,753	-	2,648,224	3,082,977
<b>Capital contribution from intermediary parent</b>	-	-	968,009,812	-	968,009,812
<b>Balance at 31 December 2011</b>	1	678,727	968,009,812	(925,655,769)	43,032,771

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

**CASH FLOW STATEMENT**

For the year ended 31 December 2011

	Note	2011 £	2010 £
<b>Cash flows from operating activities</b>			
Operating (loss)/profit before finance costs		(2,426,746)	6,841,248
Adjustments for non-cash transactions:			
Impairments of investments and loans and receivables		21,101,482	15,653,975
Loss on disposal of subsidiary		1	155,447
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(247,273)	235,354
Decrease in trade and other payables		(20,248,168)	(8,935,482)
Acquisition of investments		(13,211,780)	(68,407,651)
Disposal of investments		87,240,563	23,339,728
<b>Cash from/(used in) operations</b>		<u>72,208,079</u>	<u>(31,117,381)</u>
Interest paid		(2,322,637)	(969,185)
Income taxes received		191,443,125	8,881,798
<b>Net cash from/(used in) operating activities</b>		<u>261,328,567</u>	<u>(23,204,768)</u>
<b>Cash flows from investing activities</b>			
Interest received		50,294	18,625
Decrease in amounts due by subsidiary undertakings		-	61,567,847
Increase in amounts due to subsidiary undertakings		41,856,381	-
Proceeds on disposal of subsidiary undertakings		-	1,001
<b>Net cash from investing activities</b>		<u>41,906,675</u>	<u>61,587,473</u>
<b>Cash flows from financing activities</b>			
Capital contribution from intermediary parent		968,009,812	-
Proceeds from borrowings		130,706,470	31,778,546
Repayment of borrowings		(147,057,776)	(132,384,364)
<b>Net cash from/(used in) financing activities</b>		<u>951,658,506</u>	<u>(100,605,818)</u>
Increase/(decrease) in cash and cash equivalents		1,254,893,748	(62,223,113)
Exchange loss on cash and cash equivalents		(765,686)	(130,684)
Cash and cash equivalents at 1 January		(1,159,972,213)	(1,097,618,416)
<b>Cash and cash equivalents at 31 December</b>	17	<u>94,155,849</u>	<u>(1,159,972,213)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2011****1. Significant accounting policies**

Uberior Ventures Limited ("the Company") is a company incorporated and domiciled in Scotland.

The financial statements were authorised for issue by the Directors on 11<sup>th</sup> MAY 2012.

**(a) Financial statements**

The financial statements of Uberior Ventures Limited 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 Sterling which is the Company's functional and presentational currency.

**(b) Statement of compliance**

The 2011 statutory financial statements set out on pages 7 to 38 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. Consequently, the financial statements comply with International Financial Reporting Standards.

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

The principal accounting policies applied in the preparation 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 values: financial instruments classified as available for sale and classified as at fair value through 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 2011. None of these standards or amendments to standards has had a material impact on these financial statements.

- (i) 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.
- (ii) 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.
- (iii) Improvements to IFRSs (issued May 2010). Amends IFRS 7 Financial Instruments: Disclosure to require further disclosures in respect of collateral held by the Company as security for financial assets and sets out minor amendments to other IFRS standards as part of the annual improvements process.
- (iv) Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement. Applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements and permits such an entity to treat the benefit of such an early payment as an asset.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

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

**(c) Basis of preparation (continued)**

- (v) IAS 24 Related Party Disclosures (Revised). Simplifies the definition of a related party and provides a partial exemption from the requirement to disclose transactions and outstanding balances with the government and government-related entities. The Company has utilised this exemption which requires disclosure of significant transactions only with the government and government-related entities.

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

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2011 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 <i>Financial Instruments</i> <sup>(1)</sup>	Replaces those parts of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> relating to the classification, measurement and derecognition of financial assets and liabilities. 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 existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2015.
IFRS 10 <i>Consolidated Financial Statements</i>	Supersedes IAS 27 <i>Consolidated and Separate Financial Statements</i> and SIC-12 <i>Consolidation – Special Purpose Entities</i> and establishes principles for the preparation of consolidated financial statements when an entity controls one or more entities.	Annual periods beginning on or after 1 January 2013.
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	Requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.	Annual periods beginning on or after 1 January 2013.
IFRS 13 <i>Fair Value Measurement</i>	The standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements.	Annual periods beginning on or after 1 January 2013.
IAS 19 <i>Employee Benefits</i>	Prescribes the accounting and disclosure by employers for employee benefits. Actuarial gains and losses (remeasurements) in respect of defined benefit pension schemes are no longer deferred using the corridor approach and are recognised immediately in other comprehensive income.	Annual periods beginning on or after 1 January 2013.

<sup>(1)</sup> 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.

At the date of this report, these pronouncements are awaiting EU endorsement.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**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 equities and similar non-monetary items measured at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on available for sale non-monetary financial assets, such as equity shares, are included in the Available for Sale Reserve in other comprehensive income.

**(f) 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 or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the entity and is normally achieved through holding between 20% and 50% of the voting share capital of the entity.

The Company records such investments at historic cost less impairment.

**Investments in subsidiary undertakings**

Subsidiaries include entities over which the Company has the power to govern the financial and operating policies which generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Details of the principal subsidiaries are given in Note 13 to the financial statements.

Subsidiaries comprise equity investments in, and capital contributions to subsidiary entities. These are carried at cost less impairment provisions.

**Investments in debt and equity securities**

Debt securities for which there is no active market are classified as loans and receivables. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the balance sheet at amortised cost using the effective interest rate method less provision for impairment. Income on debt securities is recognised on an effective interest rate basis (see 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 assets at fair value through profit or loss are financial assets held for trading or where they are designated at fair value through profit and loss by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets at fair value through profit or loss are subsequently carried at fair value with gains or losses arising from changes in the fair value presented in the income statement.

All other investment securities are classified as available for sale. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the balance sheet at fair value. Unrealised gains or losses arise from changes in the fair values and are recognised in the statement of comprehensive income and accumulated in the Available for Sale Reserve, except for impairment losses which are recognised immediately in the income statement as impairment on investment securities. Income from equity shares is credited to investment income. On sale or maturity, previously unrealised gains and losses are reclassified from other comprehensive income to other operating income.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

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

**(g) Trade and other receivables**

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

**(h) Cash and cash equivalents**

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

**(i) Impairment of financial assets**

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

*Financial assets carried at 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 been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement.

If, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through other comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

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

**(j) Impairment of non-financial assets**

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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.

**(k) 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.

**(l) Trade and other payables**

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2011****1. Significant accounting policies (continued)****(m) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**(n) Revenue recognition**

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments, except for those classified at fair value through profit or loss, 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, 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 1(i) above).

Fees and commissions which are not an integral part of the effective interest rate are generally recognised when the related service has been provided within other income in the income statement.

Dividend income is recognised when the right to receive payment is established and recognised in the income statement as income from investment in associates, income from investment in jointly controlled entities, income from investment in subsidiary undertakings and investment income.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within loss / profit on disposal of investments in the income statement.

**(o) Net financing costs**

Net financing costs relate to interest payable on borrowings, foreign exchange gains and losses and interest receivable on cash and cash equivalents. 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 asset or liability and is not revised subsequently. Interest income is recognised in the income statement as it accrues, using the effective interest method.

**(p) 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2011****1. Significant accounting policies (continued)****(p) Taxation (continued)**

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

**(q) Financial assets****(i) Classification**

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

**Loans and receivables**

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

**Available for sale**

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

**Fair value through profit and loss**

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

**(ii) Recognition and measurement**

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

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

**(r) Financial liabilities**

**(i) Classification**

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

**Other financial liabilities**

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

**(ii) Recognition and measurement**

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

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

**(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.

**(t) Capital reserve**

Where the Company receives consideration from one or more shareholders without a contractual obligation to repay it (a capital contribution or gift), this is treated as an increase in equity and recorded in the capital reserve. Capital contributions or gifts are considered realised profits for distributable reserves purposes when received in qualifying consideration.

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

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

**3. 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 the 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

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

**(a) Designation of financial instruments**

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

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

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

**Critical accounting estimates and assumptions**

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

**(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.

**(c) Fair values**

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

Note 21 to the financial statements provides further information regarding the fair value of financial instruments not traded in active markets, including sensitivity analysis of the key management judgements.

**(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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**4. Investment income**

	2011 £	2010 £
Income from:		
Subsidiaries	-	2
Available for sale investments	90,322	5,652
Loans and receivables	2,415,889	5,207,619
	<u>2,506,211</u>	<u>5,213,273</u>

**5. Administrative expenses**

	2011 £	2010 £
Legal & professional fees	269,441	251,321
Management fee expense	-	502,145
	<u>269,441</u>	<u>753,466</u>

The Company has no employees. The Directors, who are considered to be key management, received no remuneration in respect of their services to the Company. The emoluments of the Directors are paid by a fellow group undertaking on behalf of the ultimate parent, Lloyds Banking Group, which makes no recharge to the Company. The Directors are also directors of a number of other subsidiaries of Lloyds Banking Group and are also substantially engaged in managing their respective business areas within the Wholesale Division of Lloyds Banking 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. The total emoluments of the Directors are included in the financial statements of the ultimate parent company, Lloyds Banking Group.

**6. Other income**

	2011 £	2010 £
Fee and commission income	<u>1,315,861</u>	<u>2,894,494</u>

**7. Other expenses**

	2011 £	2010 £
Fees payable to Company's auditor and its associates for other services:		
Other services pursuant to legislation	3,348	-
Fees payable to Company's auditor for the audit of the Company's financial statements *	29,000	9,400
	<u>32,348</u>	<u>9,400</u>

\* The audit fee is agreed and paid centrally by the Company's intermediate parent, Bank of Scotland plc. This balance represents the amount internally allocated to the Company in relation to this fee for the year ended 31 December 2011.

**8. Net finance costs**

	Note	2011 £	2010 £
Interest receivable on deposits with related parties	24	71,613	7,234
Other interest receivable		3,457	11,391
<b>Finance income</b>		<u>75,070</u>	<u>18,625</u>
Interest on borrowings from related parties	24	(691,876)	(902,872)
Interest on amounts due to related parties	24	(780,353)	(723,947)
Other foreign exchange loss		(11,226)	(66,142)
<b>Finance costs</b>		<u>(1,483,455)</u>	<u>(1,692,961)</u>
<b>Net finance costs</b>		<u>(1,408,385)</u>	<u>(1,674,336)</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**9. Income tax credit**

**Recognised in the income statement**

	Note	2011 £	2010 £
<b>Current tax</b>			
Current tax on (loss)/profit for the year		1,160,117	(1,399,301)
Adjustments in respect of prior years		<u>(1,636,735)</u>	<u>(19,641,041)</u>
		(476,618)	(21,040,342)
<b>Deferred tax</b>			
Deferred tax (credit)/charge for the year		<u>(6,006,737)</u>	<u>19,083,121</u>
	15	(6,006,737)	19,083,121
<b>Total income tax credit</b>		<u>(6,483,355)</u>	<u>(1,957,221)</u>

The income tax credit is higher (2010: tax credit is lower) than the standard rate of corporation tax in the UK applied to the (loss)/profit for the year due to the following factors:

	2011 £	2010 £
(Loss)/profit before tax	<u>(3,835,131)</u>	<u>5,166,912</u>
(Loss)/profit multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(1,016,310)	1,446,736
Income not chargeable for corporation tax purposes	(1,451,889)	(1,324,094)
Book gains covered by capital losses/indexation/substantial shareholdings	(1,363,177)	(2,613,512)
Amounts written off investment securities	496,374	(170,464)
Other	116,529	-
Adjustments in respect of prior years	(1,636,735)	67,208
Losses with no deferred tax set up	(503,441)	1,337,429
Impact of change in tax rate	<u>(1,124,706)</u>	<u>(700,524)</u>
<b>Total income tax credit</b>	<u>(6,483,355)</u>	<u>(1,957,221)</u>

**10. Income tax receivable**

The current tax asset of £3,135,989 (2010: £194,102,496) represents the amount of income taxes receivable in respect of current and prior years.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**11. Investment in associates**

	2011 £	2010 £
At 1 January	5,084,051	6,466,152
Additions	-	2,686,523
Disposals	-	(630,000)
Transfers	-	-
Impairments in the income statement	(248,199)	(3,590,124)
Reversal of impairments in the income statement	400,000	151,500
At 31 December	<u>5,235,852</u>	<u>5,084,051</u>

Of the amounts written off during 2011, £248k related to a company operating in the property investment sector, which continues to be impacted by the economic downturn. The reversal of impairment in 2011 related to a change in the recoverable amount of one entity operating within the Real Estate sector.

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

Name of associate entity	Proportion of ownership	Issued share capital held	Principal business	Incorporated	Reporting date of financial statements
Cannon Capital Partnership LLP	15%	£1,500 (members capital)	Development of care homes	UK	31 March
Continental Shelf 225 Limited	47.46%	6,550,000 £1 A ordinary shares	Holds shares in property investment companies	UK	31 March
Moncrieffe Holdings Limited	47.35%	82,192 £1 B ordinary shares	Holding company whose subsidiaries are engaged in property letting	UK	31 December
Quartet Portfolio Limited	49%	49 £1 A ordinary shares	Property investment	UK	31 December

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**12. Investment in jointly controlled entities**

	2011 £	2010 £
At 1 January	26,337,080	28,173,508
Disposals	(17,333,915)	(991,691)
Transfers	-	-
Impairments in the income statement	(1,697,969)	(5,729,206)
Reversal of impairments in the income statement	1,648,780	4,884,469
At 31 December	<u>8,953,976</u>	<u>26,337,080</u>

Of the amounts written off during 2011, £1.47m related to a company in the real estate sector, which continues to be impacted by the economic downturn. Of the reversal of impairments in 2011, £1.49m related to one company in the real estate sector.

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

Name of jointly controlled entity	Proportion of ownership	Issued share capital held	Principal business	Incorporated	Reporting date of financial statements
Continental Shelf 291 Limited	40.09%	8,118,750 £1 A ordinary shares	Investment company	UK	31 March
Giant Property Consortium Limited	23.44%	2,344 £1 C ordinary shares	Property trading in the UK	UK	3 August
IDF Holdings Property SARL	50%	5,597 €40 corporate units	Property investment	Luxembourg	31 December
Octagon (Richmond) Limited	50%	1 £1 B ordinary share	Development of luxury residential property	UK	31 March
Sand (Sahara) LLP	47%	£47 (members capital)	Owner and lessor of petrol stations	UK	31 December
Sand (Victoria) LLP	47%	£358,274 (members capital)	Owner and lessor of single petrol station	UK	31 December
Stessa Investments Limited	50%	19,978,490 £0.01 A ordinary shares	Real estate funds investment	UK	31 December

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**13. Investment in subsidiary undertakings**

	2011 £	2010 £
At 1 January	6	156,454
Disposals	(1)	(156,448)
At 31 December	<u>5</u>	<u>6</u>

The Company made no impairments during 2011.

During 2011 the Company disposed of two of its subsidiaries (Uberior Jersey Limited and Quill Securities Limited).

Details of the Company's subsidiaries are as follows:

<b>Name of subsidiary</b>	<b>Proportion of ownership</b>	<b>Principal business</b>	<b>Incorporated</b>	<b>Reporting date of financial statements</b>
BOS (Ireland) Investments	100%*	Investment holding company	Ireland	31 December
The Mound Property company Limited	100%	Property development company	UK	31 December
Uberior Europe Limited	100%	Investment holding company	UK	31 December
Uberior (Moorfield) Limited	100%	Investment holding company	UK	31 December
Uberior Real Estate Fund Limited	100%	Investment holding company	UK	31 December
Uberior (Rodinheights) Limited	100%	Investment holding company	UK	31 December

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

\* BOS (Ireland) Investments reduced its share capital to 2 ordinary shares of €1 during 2011. Uberior Ventures Limited directly owns 1 share of the 2 ordinary shares of €1 issued by BOS (Ireland) Investments and indirectly owns the remainder of the issued share capital through Uberior (Rodinheights) Limited.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**14. Investments**

	Note	2011 £	2010 £
<b>Investments</b>			
Debt securities	(a)	41,444,007	127,374,232
Equity securities – available for sale	(b)	15,495,390	6,893,369
Equity securities – fair value through profit and loss	(c)	-	-
		<u>56,939,397</u>	<u>134,267,601</u>
<b>Income statement impairment charge in the year</b>			
Debt securities	(a)	(21,204,094)	(11,272,915)
Equity securities	(b)	-	100,000
		<u>(21,204,094)</u>	<u>(11,172,915)</u>

**(a) Debt securities**

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

	2011 £	2010 £
<b>Gross debt securities</b>		
As at 1 January	568,518,631	589,329,525
Exchange translation	-	20
Additions	5,180,517	52,164,000
Disposals	<u>(173,627,821)</u>	<u>(72,974,914)</u>
As at 31 December	<u>400,071,327</u>	<u>568,518,631</u>
<b>Provision for impairment</b>		
As at 1 January	(441,144,399)	(499,167,655)
New provisions	(21,204,094)	(11,272,915)
Release of provisions on disposal	<u>103,721,173</u>	<u>69,296,171</u>
As at 31 December	<u>(358,627,320)</u>	<u>(441,144,399)</u>
<b>Net debt securities</b>		
As at 31 December	<u>41,444,007</u>	<u>127,374,232</u>

All assets have been individually assessed for impairment. The gross debt security value of £400,071,327 (2010: £568,518,631) includes £391,619,348 (2010: £508,119,067) of investments which are considered impaired, and which have a provision for impairment of £358,627,320 (2010: £441,144,399) to reduce their carrying value in accordance with the accounting policy detailed in Note 1(i) to the financial statements. No collateral was held.

The remaining gross value of debt securities relates to investments neither past due nor impaired, which have an internal credit rating as detailed in the table below:

	2011 £	2010 £
<b>Internal credit rating:</b>		
Satisfactory risk	-	9,899,564
Viable but monitoring	<u>8,451,979</u>	<u>50,500,000</u>
	<u>8,451,979</u>	<u>60,399,564</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**14. Investments (continued)**

**(b) Equity securities – available for sale**

The movement in equity securities classified as available for sale can be summarised as follows:

	2011 £	2010 £
At 1 January	6,893,369	11,544,807
Additions	8,031,263	13,557,148
Disposals	-	(18,039,314)
Transfers	-	-
Changes to fair value in available for sale investments	570,758	(269,272)
Reversal of impairment in the income statement	-	100,000
At 31 December	<u>15,495,390</u>	<u>6,893,369</u>

During 2011 a number of equity investments in entities in administration were transferred from 'Investment in jointly controlled entities' and 'Investment in associates' to 'Equity securities – available for sale'. Prior to transfer these investments had a carrying value of £nil and on reclassification were initially recognised at fair value of £nil.

Included in available for sale financial assets at 31 December 2011 are equity securities individually determined to be impaired whose gross amount before impairment allowances was £30,087,063 (2010: £33,901,047).

**(c) Equity securities – fair value through profit and loss**

During 2011 one equity investment with a carrying value of £nil was recognised and classified as 'Equity securities – fair value through profit and loss'. There have been no further changes to fair value, impairments or reversal of impairments during 2011 in respect of equity securities at fair value through profit and loss.

As at 31 December 2011 there were no equity securities classified as fair value through profit and loss (2010: there were a number of equity securities classified as fair value through the profit and loss individually determined to be impaired whose gross amount before impairment allowances was £nil).

**15. Deferred tax assets and liabilities**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets 2011 £	Liabilities 2011 £	Net 2011 £	Assets 2010 £	Liabilities 2010 £	Net 2010 £
Equity securities – available for sale	-	(226,242)	(226,242)	-	(90,237)	(90,237)
Other timing differences	226,242	(13,133,651)	(12,907,409)	90,237	(19,004,383)	(18,914,146)
<b>Tax assets / (liabilities)</b>	<u>226,242</u>	<u>(13,359,893)</u>	<u>(13,133,651)</u>	<u>90,237</u>	<u>(19,094,620)</u>	<u>(19,004,383)</u>

**Movement in temporary differences in the year**

	Balance at 1 Jan 2011 £	Recognised in income £	Recognised in reserves £	Balance at 31 Dec 2011 £
Equity securities – available for sale	(90,237)	-	(136,005)	(226,242)
Other timing differences	(18,914,146)	6,006,737	-	(12,907,409)
	<u>(19,004,383)</u>	<u>6,006,737</u>	<u>(136,005)</u>	<u>(13,133,651)</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2011

**15. Deferred tax assets and liabilities (continued)**

Movement in temporary differences in the prior year

	Balance at 1 Jan 2010 £	Recognised in income £	Recognised in reserves £	Balance at 31 Dec 2010 £
Equity securities – available for sale	(168,975)	-	78,738	(90,237)
Other timing differences	168,975	(19,083,121)	-	(18,914,146)
	-	(19,083,121)	78,738	(19,004,383)

Deferred tax assets of £30,487,449 (2010: £68,954,876) 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.

**16. Trade and other receivables**

	2011 £	2010 £
Other trade receivables and prepayments	308,850	36,801

**17. Cash and cash equivalents**

	2011 £	2010 £
Bank overdrafts	-	(1,159,972,213)
Bank deposits	94,155,849	-
	94,155,849	(1,159,972,213)

**18. Capital and reserves****Capital risk management**

The distributable reserves of the Company are managed through the Lloyds Banking Group Capital and Funding Policy in order to maximise capital efficiency within Lloyds Banking Group. Dividends are paid from reserves available for distribution to the parent undertaking as reported by the previously approved annual accounts according to parameters set out at a Lloyds Banking 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	
	2011 £	2010 £
In issue at 31 December	1	1

At 31 December 2011, the authorised share capital comprised 1,000 Ordinary Shares of £1 each (2010: 1,000). The one issued share is fully paid.

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

**Available for sale reserve**

The available for sale reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised by disposal or impaired through the income statement.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2011

**18. Capital and reserves (continued)****Capital reserve**

During 2011 the Company's intermediary parent company, Bank of Scotland plc, agreed to unconditionally and irrevocably release the Company from its obligations to repay the sum of £968,009,812 in respect of the bank overdraft position held by the Company. This has been recognised as a capital contribution in the capital reserve during 2011 and represents a realised profit for distributable reserves purposes.

**19. 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 21 to the financial statements.

	2011	2010
	£	£
Unsecured bank facility	13,425,012	29,970,330

**Terms and debt repayment schedule**

The unsecured bank facility is payable to the Company's intermediate parent undertaking, Bank of Scotland plc. The loans bear interest at a fixed rate of between 2.50% and 3.38% until the next roll over date and are payable at the end of the loan term. The loans are repayable at various dates between February 2012 and February 2013.

The carrying amounts of the Company's borrowings denominated in Euros are £13,425,012 (2010: £29,970,330).

	2011	2010
	£	£
<b>Current liabilities</b>		
In one year or less	9,676,728	16,149,175
<b>Non-current liabilities</b>		
In more than one year but not more than two years	3,748,284	9,962,267
In more than two years but not more than five years	-	3,858,888
	3,748,284	13,821,155
Total interest-bearing loans and borrowings	13,425,012	29,970,330

**20. Trade and other payables**

	2011	2010
	£	£
Amounts due to related parties	18,676,406	38,077,492
Other payables	666,085	755,363
Accruals and deferred income	68,236	1,681,308
	19,410,727	40,514,163

**21. Financial instruments**

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including interest rate risk, foreign exchange risk and equity risk) and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management within Lloyds Banking Group ('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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2011****21. Financial instruments (continued)****Credit Risk (continued)**

	Note	2011 £	2010 £
<u>On balance sheet:</u>			
Bank deposits	17	94,155,849	-
Investments - debt securities	14	41,444,007	127,374,232
Trade and other receivables	16	308,850	36,801
		<u>135,908,706</u>	<u>127,411,033</u>

Debt securities in issue are carried at amortised cost adopting the impairment policy described within Note 1(i) to the financial statements, exposure is concentrated amongst UK registered institutions who are primarily engaged in real estate activities. At the reporting date a number of the debt securities were considered impaired (refer to note 14), these are included in the high risk category below.

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

- High Risk – where there is a provision for impairment against the debt securities.
- Viable but monitoring – no provision for impairment against the debt securities but likelihood of recovering all of the original cost is not certain.
- Satisfactory Risk – no provision for impairment against the debt securities and likelihood of recovering all of the original cost is high.

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

	2011 %	2010 %
Internal rating - Satisfactory risk	-	8
Internal rating - Viable but monitoring	20	40
Internal rating - High risk	80	52

Other exposures consist of bank deposits with Lloyds Banking Group and trade and other receivables.

Cash and cash equivalents representing inter-company balances within Lloyds Banking Group have an internal credit rating of better than satisfactory. Trade and other receivables are carried at amortised cost, whereby any indication of impairment would result in an immediate write-down of the carrying value. At the reporting date these balances were not considered past due or impaired.

**Market rate risk**

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

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

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

**Interest rate risk**

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

Debt securities have both fixed and variable interest rates which respond to prevailing market rates of interest. These securities are funded by financial liabilities provided by another Lloyds Banking Group company in the form of fixed rate bank loans. At the reporting date the Company held cash and cash equivalents with another Lloyds Banking Group company in a non-interest bearing bank account and in a short term fixed rate deposit account. In addition at the reporting date the Company had a £150,000 loan receivable which earns interest at base rate plus 3%.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2011****21. Financial instruments (continued)****Interest rate risk (continued)**

Accordingly, the Company does not consider itself to have any significant interest rate exposures as demonstrated by the sensitivity note below.

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

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

	2011	2010
	£	£
Impact of +25 bps shift	375	-
Impact of - 25 bps shift	(375)	-

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

**Foreign exchange risk**

Foreign exchange risk arises on monetary financial assets (included in 'Amounts due to subsidiary undertakings' and 'Cash and cash equivalents') and borrowings denominated in a currency other than 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.

**Equity risk**

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

At the reporting date the carrying value of equity investments amounted to £15,495,390 (2010: £6,893,369). Unrealised gains/losses arising from changes in fair value of available for sale investments will be taken to other comprehensive income through the Available for Sale ('AFS') Reserve except for impairment losses which are recognised immediately in the income statement. Unrealised gains/losses arising from changes in fair value of investments classified as fair value through profit and loss will be recognised in the income statement.

The table below sets out the sensitivity of the AFS reserve (before tax) and profit before tax to a 10% fall in fair value of equity investments as at the balance sheet date.

	2011	2011	2010	2010
	AFS Reserve	PBT	AFS Reserve	PBT
	£	£	£	£
Unlisted equity investments	1,549,539	-	689,337	-

The underlying investment sector has concentrations around Real Estate (100%).

Geographic exposure is predominantly within the UK.

**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 Bank Group company subject to internal limits. Overall liquidity of Lloyds Banking Group is managed centrally.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

## 21. Financial instruments (continued)

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 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	£	£	£	£	£	£
<b>On-balance sheet</b>						
Interest-bearing loans and borrowings	-	2,612,459	7,344,718	3,773,143	-	13,730,320
Trade and other payables	18,676,406	3,348	685,275	-	-	19,365,029
Amounts due to subsidiary undertakings	79,727,757	-	-	-	-	79,727,757
<b>Off-balance sheet</b>						
Undrawn financial commitments	14,965,311	-	-	-	-	14,965,311
<b>Total liabilities</b>	<b>113,369,474</b>	<b>2,615,807</b>	<b>8,029,993</b>	<b>3,773,143</b>	<b>-</b>	<b>127,788,417</b>

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	£	£	£	£	£	£
<b>On-balance sheet</b>						
Bank overdrafts	1,159,972,213	-	-	-	-	1,159,972,213
Interest-bearing loans and borrowings	5,812,097	2,769,726	8,191,877	14,135,473	-	30,909,173
Trade and other payables	39,736,974	9,400	-	666,075	-	40,412,449
Amounts due to subsidiary undertakings	38,426,964	-	-	-	-	38,426,964
<b>Off-balance sheet</b>						
Undrawn financial commitments	39,690,820	-	-	-	-	39,690,820
<b>Total liabilities</b>	<b>1,283,639,068</b>	<b>2,779,126</b>	<b>8,191,877</b>	<b>14,801,548</b>	<b>-</b>	<b>1,309,411,619</b>

## Fair values

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

		2011	2011	2010	2010
	Note	Carrying amount	Fair value	Carrying amount	Fair value
		£	£	£	£
Equity securities - available-for-sale	14	15,495,390	15,495,390	6,893,369	6,893,369
Equity securities - fair value through profit and loss	14	-	-	-	-
Debt securities - loans and receivables	14	41,444,007	44,952,524	127,374,232	133,184,126
Trade and other receivables	16	308,850	308,850	36,801	36,801
Cash and cash equivalents	17	94,155,849	94,155,849	(1,159,972,213)	(1,159,972,213)
Interest-bearing loans and borrowings	19	(13,425,012)	(13,536,523)	(29,970,330)	(30,459,087)
Trade and other payables	20	(19,410,727)	(19,410,727)	(40,514,163)	(40,514,163)
Amounts due to subsidiary undertakings	24	(79,727,757)	(79,727,757)	(38,426,964)	(38,426,964)
		<b>38,840,600</b>	<b>42,237,606</b>	<b>(1,134,579,268)</b>	<b>(1,129,258,131)</b>
Unrecognised gains			<b>3,397,006</b>		<b>5,321,137</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**21. Financial instruments (continued)**

**Estimation of fair values**

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

**Equity securities**

Fair value of equity securities classified as available for sale and at fair value through profit and loss is calculated in accordance with the Group valuation policy. The policy allows for an earnings multiple, net asset value or discounted cash-flow approach to be taken dependent on the sector and circumstances of the investee. The main inputs and assumptions of these approaches are discussed in further detail below.

**Debt securities**

Where the recoverable value (i.e. net present value of appropriately discounted cash-flows) of a debt security is considered to be lower than its carrying value, an impairment has been processed to bring the carrying value down to the recoverable value. Therefore it is considered that the carrying value of these debt securities approximates the fair value. The fair value of debt securities that are not impaired is also determined by using discounted cash-flow analysis valuation techniques.

**Trade and other receivables / Trade and other payables / Amounts due to subsidiary undertakings**

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

**Cash and cash equivalents**

The fair value of cash and cash equivalents repayable on demand is considered to be equal to their carrying value.

**Interest-bearing loans and borrowings**

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

**Fair value of financial instruments carried at fair value**

Equity shares held as investment securities and measured as fair value at the end of the reporting period, are all categorised under the fair value hierarchy as Level 3.

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

	Note	2011 £	2010 £
As at 1 January	14	6,893,369	11,544,807
Gains / (losses) recognised in:			
- Income Statement	14	-	100,000
- Other comprehensive income	14	570,758	(269,272)
Additions	14	8,031,263	13,557,148
Disposals	14	-	(18,039,314)
Transfers		-	-
As at 31 December	14	15,495,390	6,893,369

During 2010 and 2011 a number equity investments in entities in administration were transferred into Level 3 of the fair value hierarchy. For further information refer to note 14.

	2011 £	2010 £
Total losses included in profit or loss for the year:		
Reversal of impairment of investments	-	100,000
Total gains included in other comprehensive income for the year, for assets held at the end of the reporting period:		
Changes to fair value in available for sale investments	570,758	(269,272)

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**21. Financial instruments (continued)**

**Fair value of financial instruments carried at fair value (continued)**

	2011 £	2010 £
Amounts included within profit for the year that relate to assets held at year end:		
Reversal of impairment of investments	-	100,000

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

	Effect on Profit and Loss		Effect on Other Comprehensive Income	
	Favourable £	Unfavourable £	Favourable £	Unfavourable £
<b>31 December 2011</b>				
Investment securities	-	-	366,051	(366,050)
<b>31 December 2010</b>				
Investment securities	333,207	-	277,594	(277,367)

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

A valuation method is selected for each of the equity investments carried at fair value, in accordance with the valuation policy.

This allows for an earnings multiple approach, net asset value approach, or discounted cash-flow approach to be taken; dependent on the sector and circumstances of each investee company.

The main inputs and assumptions under each method at 31 December 2011 and 31 December 2010 are as follows:

- Earnings multiple approach - based on maintainable earnings and appropriate valuation multiple. The valuation multiples are based on the median of comparator company multiples which are then discounted as appropriate. It is reasonably possible that an alternative discount factor could be applied to the multiple used in these valuations.

- Net asset value approach - valuation of assets and liabilities of the company. Depending on the individual circumstances of the company involved this may be based on most recent management accounts, statutory accounts and recent property valuations or most recent fund manager report, adjusted appropriately for estimated property valuation movements, timing and recoverability issues. It is reasonably possible that alternative adjustments to the net asset value or property values could apply in these valuations.

- Discounted cash-flow approach - estimated future cash-flow projections predominantly based on management forecasts with application of discount/sensitivity if deemed appropriate, exit yields/terminal multiples and discount rates determined based on knowledge of the investments, sector information and rates used in recent valuations. It is reasonably possible that an alternative discount factor or exit yields/terminal multiples could apply in these valuations.

**22. Financial commitments**

As at 31 December 2011, the Company has committed £7,249,550 (2010: £140,374,072) in investment securities of which £275 (2010: £15,494,318) is undrawn.

As at 31 December 2011, the Company has committed £35,001,024 (2010: £37,641,033) in partly paid ordinary shares, of which £14,965,036 (2010: £24,196,502) is still unpaid.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**23. Guarantees**

The Company has no guarantees in place as at 31 December 2011.

**24. Related parties**

The Company has a related party relationship with its intermediate parent company Bank of Scotland plc. A number of banking transactions are entered into with Bank of Scotland plc in the normal course of business including loans and deposits.

The Company also has related party relationships with its subsidiary undertakings. The relationships with subsidiary undertakings have arisen due to the provision of funding to these companies.

Details of the related party transactions during the year are disclosed below.

**(a) Transactions with Bank of Scotland plc**

Nature of transaction	Note	Balance at 1 January 2011 £	Balance at 31 December 2011 £	Income/ (expense) included in income statement for the year ended 31 December 2011 £	Income/ (expense) included in income statement for the year ended 31 December 2010 £	Disclosure in financial statements
Capital contribution from intermediary parent	18	-	(968,009,812)	-	-	Capital and reserves
Bank overdraft	17	(1,159,972,213)	-	-	-	Cash and cash equivalents
Bank deposit account	17	-	94,155,849	-	-	Cash and cash equivalents
Accrued interest on bank deposit	16	-	21,640	-	-	Trade and other receivables
Term loans	19	(29,970,330)	(13,425,012)	-	-	Interest-bearing loans and borrowings
Accrued interest on term loans	20	(81,308)	(45,688)	-	-	Trade and other payables
Audit fee paid by intermediary parent	7	-	-	(29,000)	(9,400)	Other expenses
Audit fee paid by intermediary parent	20	(9,400)	(19,600)	-	-	Trade and other payables
Interest receivable on bank deposit	8	-	-	71,613	7,234	Finance income
Interest payable on term loans	8	-	-	(691,876)	(902,872)	Finance costs

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**24. Related parties (continued)**

**(b) Transactions with subsidiary undertakings**

Related party	Note	Balance at 1 January 2011 £	Balance at 31 December 2011 £	Income/ (expense) included in income statement for the year ended 31 December 2011 £	Income/ (expense) included in income statement for the year ended 31 December 2010 £	Disclosure in financial statements
Uberior (Rodinheights) Limited		(38,426,964)	(79,727,757)	-	-	Amounts due to subsidiary undertakings
Uberior Jersey Limited		-	-	-	(197,699)	Impairments of amounts due by subsidiary undertakings
Credential Lothian Limited (previously Uberior Ventures Credential Limited)		-	-	-	211,441	Investment income from subsidiaries
<b>Total amounts due to subsidiary undertakings</b>		(38,426,964)	(79,727,757)			

All transactions noted in the table above relate to intercompany balances.

During 2011 the Company disposed of two of its subsidiaries (Uberior Jersey Limited and Quill Securities Limited).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**24. Related parties (continued)**

**(c) Transactions with jointly controlled entities**

Nature of transaction	Note	Balance at 1 January 2011 £	Balance at 31 December 2011 £	Income/ (expense) included in income statement for the year ended 31 December 2011 £	Income/ (expense) included in income statement for the year ended 31 December 2010 £	Disclosure in financial statements
Fee and commission income from jointly controlled entities	6	-	-	797,881	2,344,907	Other income
Interest on amounts due to related parties	8	-	-	(330,722)	(308,238)	Finance costs
Amounts due to jointly controlled entities	20	(23,396,974)	(7,673,296)	-	-	Trade and other payables
Interest on amounts due to jointly controlled entities	20	(1,600,000)	-	-	-	Trade and other payables
Investment income		-	-	5,050,172	6,560,000	Investment income from jointly controlled entities

**(d) Transactions with associates**

Nature of transaction	Note	Balance at 1 January 2011 £	Balance at 31 December 2011 £	Income/ (expense) included in income statement for the year ended 31 December 2011 £	Income/ (expense) included in income statement for the year ended 31 December 2010 £	Disclosure in financial statements
Fee and commission income from associates	6	-	-	266,667	477,876	Other income
Interest on amounts due to related parties	8	-	-	(449,631)	(415,709)	Finance costs
Amounts due to associates	20	(14,680,518)	(11,003,110)	-	-	Trade and other payables
Investment income		-	-	393,115	44,903	Investment income from associates

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2011**

**25. Post balance sheet events**

On 23 March 2011, the Government announced that the corporation tax rate applicable from 1 April 2011 would be 26 per cent. This change passed into legislation on 29 March 2011. In addition, the Finance Act 2011, which passed into law on 19 July 2011, included legislation to reduce the main rate of corporation tax from 26 per cent to 25 per cent with effect from 1 April 2012. The change in the main rate of corporation tax from 27 per cent to 25 per cent has resulted in a reduction in the net deferred tax liability at 31 December 2011 of £1,139,952, comprising a £1,124,706 credit included in the income statement and a £15,246 credit included in equity.

On 21 March 2012, the Government announced a further reduction in the rate of corporation tax to 24 per cent with effect from 1 April 2012. This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012. The additional reduction to 24 per cent is estimated to reduce the net deferred tax liability by a further £525,346 and will be reflected in the financial statements for the year ended 31 December 2012.

The proposed further reductions in the rate of corporation tax by 1 per cent per annum to 22 per cent 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.

**26. Parent undertakings**

As at 31 December 2011 the Company's immediate parent company was Uberior Investments Limited. The company regarded by the Directors as the ultimate parent undertaking and controlling party is Lloyds Banking Group plc (formerly Lloyds TSB Group plc) which is incorporated in Scotland. Lloyds Banking Group plc has produced accounts for the year ended 31 December 2011. Copies of the annual report and accounts of Lloyds Banking Group plc for the year ended 31 December 2011 may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN.

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

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

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

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

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

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

- (a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR VENTURES LIMITED**

We have audited the financial statements of Uberior Ventures Limited for the year ended 31 December 2011 which comprises the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement 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 Statement of Directors' Responsibilities set out on page 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 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.

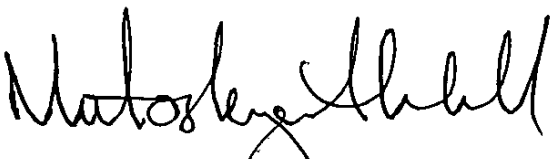
**Opinion on other matter prescribed by the Companies Act 2006**

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.



Mark Hoskyns-Abraham (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
11 May 2012