UBERIOR FUND INVESTMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

MEMBER OF LLOYDS BANKING GROUP

Company Number: SC272465

Directors
K M Bothwell
G J McDonald
A W Géczy
T C Murphy
J B Molony

Secretary
J E Nielsen

Registered office
Level 1
Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

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

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

REPORT OF THE DIRECTORS

The Directors, as listed on page 2, submit their report and audited financial statements of Uberior Fund Investments Limited ("the Company") for the year ended 31 December 2011.

Incorporation
The Company was incorporated on 26 August 2004.

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

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

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

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

Results and dividends
The results for the year ended 31 December 2011 are shown in the Income Statement on page 7. The Directors do not recommend the payment of a dividend in 2011 (2010: nil).

Risk management
The key risks and uncertainties faced by the Company are managed within the framework established for the Lloyds Banking Group plc Group of companies ("the LBG Group"). Exposure to credit risk, interest rate risk, foreign exchange risk and equity risk arises in the normal course of the Company's business. These risks are discussed below and supplementary qualitative and quantitative information is provided in note 17 to the financial statements. The Company is funded by its intermediate parent undertaking and as a result liquidity risk is managed within the LBG 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 Group company with interest being charged at agreed rates within the LBG 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 the LBG Group policy in ensuring that all foreign currency investments are hedged with borrowings in the same currency. The currencies which give rise to the Company's foreign exchange risk are US Dollars and Euros. Further information about the Company's sensitivity to changes in foreign exchange rates is set out in note 17.

Equity risk
Equity risk exists from the Company's exposure to listed and unlisted equity shares. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is set out in note 18.

Going concern
As set out in note 2 - 'Principles underlying going concern assumption' - 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.

REPORT OF THE DIRECTORS (continued)

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

Performance
The Company's profit before tax for the financial year is £42,324,478 (2010: loss £19,813,572).

During the year the Company has recognised a higher volume of investment disposals than in 2010 resulting in profits on disposal of £123,955,900 being recognised in the Income Statement. This compares to £50,003,254 of profits on disposal recognised in 2010. The Company aims to hold each investment for the appropriate time period which will maximise returns to the LBG Group and therefore profits recognised on disposals can fluctuate year on year. In addition, the Company has recognised a charge to the Income Statement in 2011 in respect of specific impairments of £32,695,443 compared to £17,987,971 in 2010.

The Balance Sheet shows a net liability of £15,722,940 in 2011 compared to net liabilities of £315,070,252 in 2010. This is attributable to the Company recognising a capital contribution from Bank of Scotland plc (see note 14) and the increase in realised gains noted above.

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

Post balance sheet events
Refer to note 22 for detail on post balance sheet events.

Directors and their interests
The Directors at the date of this report are as stated on page 2. There were no appointments or resignations in the year to 31 December 2011, however, AJ Cumming resigned subsequent to year end.

Director	Date of Resignation
A J Cumming	6 February 2012

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

Auditors and disclosure of information to auditors
By elective resolution, PricewaterhouseCoopers LLP were reappointed as auditors for the Company.

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

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

By Order of the Board,

Director 11 June 2012
KAREN M. BOTHWELL
Company Number: SC272465

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

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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.

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

Each of the Directors, whose names are listed on page 2 of the Report and Financial Statements confirm that:

- to the best of each Director's knowledge that the Company's financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By Order of the Board,

Director 11 June 2012
KAREN M. BOTHWELL
Company Number: SC272465

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR FUND INVESTMENTS LIMITED

We have audited the financial statements of Uberior Fund Investments Limited for the year ended 31 December 2011 which comprise of the Income Statement, the Statement of Comprehensive Income, Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flow, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

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 31st 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-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

11 June 2012

INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 £	2010 £
Investment income	*3*	8,177,202	7,888,089
Profit on disposal of investments		123,955,900	50,003,254
Amounts written off investments	*10*	(32,695,443)	(17,987,971)
Administrative expenses	*5*	(24,904,176)	(24,327,550)
Other income	*4*	26,456	85,590
Other expenses	*6*	(49,499)	(5,527)
Net other (expenses)/income		**(23,043)**	**80,063**
Operating profit before financing costs		**74,510,440**	**15,655,885**
Financing costs	*7*	(32,185,962)	(35,469,457)
Profit/(loss) before tax		**42,324,478**	**(19,813,572)**
Income tax (charge)/credit	*8*	(4,782,902)	22,879,781
Profit after tax for the year		**37,541,576**	**3,066,209**
Attributable to:			
Equity holders		37,541,576	3,066,209
Profit for the year		**37,541,576**	**3,066,209**

The accompanying notes on pages 12 to 29 form part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011 £	2010 £
Profit for the year		**37,541,576**	**3,066,209**
Other comprehensive income:			
Movements in available for sale financial assets:			
- changes in fair value		136,572,819	195,242,065
- amounts recognised in the Income Statement		(130,168,208)	(49,431,343)
		6,404,611	145,810,722
Currency translation difference, before tax		(9,554,229)	(8,592,786)
Movements in deferred tax	*12*	6,593,293	(34,646,462)
Other comprehensive income for the year		**3,443,675**	**102,571,474**
Total comprehensive income for the year		**40,985,251**	**105,637,683**
Attributable to:			
Equity holders		40,985,251	105,637,683
Total comprehensive income for the year		**40,985,251**	**105,637,683**

The accompanying notes on pages 12 to 29 form part of these financial statements.

BALANCE SHEET

As at 31 December 2011

	Note	2011 £	2010 £
Assets			
Investments	*10*	1,216,590,622	1,079,265,912
Total non-current assets		**1,216,590,622**	**1,079,265,912**
Investments held for sale	*11*	-	257,533,452
Cash and cash equivalents	*13*	8,838,061	2,035,883
Current income tax asset	*8*	-	18,147,727
Total current assets		**8,838,061**	**277,717,062**
Total assets		**1,225,428,683**	**1,356,982,974**
Equity			
Issued capital	*14*	1	1
Capital reserve	*14*	258,362,061	-
Available for sale reserves		204,858,789	201,415,114
Retained earnings		(478,943,791)	(516,485,367)
Total equity		**(15,722,940)**	**(315,070,252)**
Liabilities			
Interest-bearing loans and borrowings	*15*	12,941,215	436,244,185
Deferred tax liability	*12*	15,054,404	19,194,839
Total non-current liabilities		**27,995,619**	**455,439,024**
Bank overdraft	*13*	312,883,063	638,229,608
Interest-bearing loans and borrowings	*15*	891,310,436	575,145,373
Current income tax liability	*8*	1,191,215	-
Trade and other payables	*16*	7,771,290	3,239,221
Total current liabilities		**1,213,156,004**	**1,216,614,202**
Total liabilities		**1,241,151,623**	**1,672,053,226**
Total equity and liabilities		**1,225,428,683**	**1,356,982,974**

The accompanying notes on pages 12 to 29 form part of these financial statements.

Approved by the Board of Directors by written resolution and signed on its behalf on 11 June 2012 by:

Director

KAREN M. BOTHWELL

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital	Capital reserve	Available for sale reserve	Retained earnings	Total Equity
	£	£	£	£	£
Balance at 1 January 2010	**1**	**-**	**98,843,640**	**(519,551,576)**	**(420,707,935)**
Comprehensive income					
Profit for the year	-	-	-	3,066,209	3,066,209
Other comprehensive income	-	-	102,571,474	-	102,571,474
Total comprehensive income	**-**	**-**	**102,571,474**	**3,066,209**	**105,637,683**
Balance at 1 January 2011	**1**	**-**	**201,415,114**	**(516,485,367)**	**(315,070,252)**
Comprehensive income					
Profit for the year	-	-	-	37,541,576	37,541,576
Other comprehensive income	-	-	3,443,675	-	3,443,675
Total comprehensive income	**-**	**-**	**3,443,675**	**37,541,576**	**40,985,251**
Total contributions from owners of the Company	-	258,362,061	-	-	258,362,061
Balance at 31 December 2011	**1**	**258,362,061**	**204,858,789**	**(478,943,791)**	**(15,722,940)**

The accompanying notes on pages 12 to 29 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 £	2010 £
Cash flows from operating activities			
Operating profit before financing costs		74,510,440	15,655,885
Increase in trade and other payables		22,432	-
Profit on disposal of investments		(123,955,900)	(50,003,254)
Amounts written off investments	*10*	32,695,443	17,987,971
Interest received	*4*	(26,456)	(85,590)
Foreign exchange (loss)/gain on operating activities		(284,425)	773,099
Cash generated from operations		**(17,038,466)**	**(15,671,889)**
Interest received	*4*	26,456	85,590
Interest paid		(27,592,293)	(36,384,581)
Amounts received in respect of income taxes		17,008,896	14,221,619
Net cash used in operating activities		**(27,595,407)**	**(37,749,261)**
Cash flows from investing activities			
Acquisition of investments	*10*	(230,781,746)	(381,026,430)
Proceeds from sale of investments		407,936,833	216,593,170
Net cash from/(used in) investing activities		**177,155,087**	**(164,433,260)**
Cash flows from financing activities			
(Decrease)/Increase in borrowings		(107,137,907)	130,031,437
Exchange rate movements on borrowings		31,107,528	18,385,684
Capital contribution	*14*	258,362,061	-
Net cash from financing activities		**182,331,682**	**148,417,121**
Net increase/(decrease) in cash and cash equivalents		331,891,362	(53,765,400)
Cash and cash equivalents at 1 January		(636,193,725)	(581,678,525)
Exchange rate movements on cash held		257,361	(749,800)
Cash and cash equivalents at 31 December	*13*	**(304,045,002)**	**(636,193,725)**

The accompanying notes on pages 12 to 29 form part of these financial statements.

Notes to the financial statements

1. Significant accounting policies

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

The financial statements were authorised for issue by the Directors on 11 June 2012.

(a) Financial statements

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

(b) Statement of compliance

The 2011 financial statements set out on pages 7 to 29 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union. The financial statements have been prepared in accordance with 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.

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

(c) Basis of preparation

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

The Company has adopted the following new standards and amendments to standards which became effective for financial years beginning on or after 1 January 2011. None of these standards or amendments had a material impact on these financial statements. The Company has also made changes to the format of certain disclosures within the financial statements. These are purely presentational and no restatement was necessary following these changes.

- 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.
- 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.
- Improvements to IFRSs (issued May 2010). Amends IFRS 7 Financial Instruments: Disclosure to require further disclosures in respect of collateral held as security for financial assets and sets out minor amendments to other IFRS standards as part of the annual improvements process.
- 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.
- 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.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(d) IFRS and IFRIC not yet applied

The following pronouncements will be relevant to the Company but were not effective at 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 *Financial Instruments*[1]	Replaces those parts of IAS 39 *Financial Instruments: Recognition and Measurement* relating to the classification, measurement and derecognition of financial assets and liabilities. 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 12 *Disclosure of Interests in Other Entities*	Requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.	Annual periods beginning on or after 1 January 2013.
IFRS 13 *Fair Value Measurement*	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.

[1] 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.

(e) Foreign currency

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

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

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

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(f) Hedge accounting

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

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

(g) Investments

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

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

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

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

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

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

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

(h) Trade and other receivables

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

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(i) Cash and cash equivalents

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

(j) Impairment of financial assets

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

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

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

(k) Interest bearing borrowings

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

(l) Dividends

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

(m) Trade and other payables

Trade and other payables are stated at cost.

(n) Financing costs

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

(o) Management fees

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

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(p) Revenue recognition

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

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

(q) Taxation

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

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the LBG Group and it is probable that the difference will not reverse in the foreseeable future. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited to the Statement of Comprehensive Income, is also credited or charged to the Statement of Comprehensive Income and is subsequently reclassified to the Income Statement together with the deferred gain or loss.

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

(r) Capital Reserve

When the Company receives consideration from its owner without a contractual obligation to repay (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 as qualifying consideration.

(s) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

Valuation and impairment of financial instruments

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

Management judgement is required in determining the categorisation, in accordance with IFRS 7, of the Company's financial instruments that are carried at fair value. Financial instruments categorised as level 1 are valued using quoted market prices and therefore minimal judgement is applied in determining fair value. However, the fair value of financial instruments categorised in level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. These require management judgement and therefore contain significant estimation uncertainty.

In particular, significant judgement is required by management in determining appropriate assumption to be used for level 3 financial instruments. At 31 December 2011 the Company classified £1,216,590,622 of financial assets (2010: £1,336,799,364) as level 3 financial instruments.

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

Deferred tax

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

2. Going concern – Principles underlying going concern assumption

The Company is reliant on funding provided by Bank of Scotland plc. Notwithstanding the improvement in market liquidity during 2011, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position. The Directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

3. Investment income	**2011**	**2010**
	£	**£**
Income from available for sale investment securities	8,177,202	7,888,089
	8,177,202	**7,888,089**

Notes to the financial statements (continued)

4. Other income	**2011**	**2010**
	£	**£**
Interest received on term deposits	25,955	85,590
Bank interest	501	-
	26,456	**85,590**

5. Administrative expenses	**2011**	**2010**
	£	**£**
Management fees	**24,904,176**	**24,327,550**

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

6. Other expenses	**2011**	**2010**
	£	**£**
Transaction charges	666	239
Audit fee	48,833	5,288
	49,499	**5,527**

The audit fee is agreed and paid centrally by the Company's intermediate parent, Bank of Scotland plc. This expense therefore represents the amounts payable to Bank of Scotland plc in relation to the audit fee for the financial year.

7. Financing costs	**2011**	**2010**
	£	**£**
Interest expense	32,101,930	35,118,979
Foreign exchange:		
Net ineffectiveness on fair value hedge (see note 17)	56,967	373,779
Other	27,065	(23,301)
Total foreign exchange	84,032	350,478
Financing costs	**32,185,962**	**35,469,457**

8. Income tax (charge)/credit recognised in the Income Statement	**2011**	**2010**
	£	**£**
Current tax		
Current year credit	(2,373,934)	511,168
Adjustments to prior year	43,890	(2,395,447)
	(2,330,044)	**(1,884,279)**
Deferred tax		
Deferred tax credit for the year	(5,350,794)	26,826,500
Deferred tax credit in respect of prior years	7,257,452	-
Impact of change in tax rate	(4,359,516)	(2,062,440)
	(2,452,858)	**24,764,060**
	(4,782,902)	**22,879,781**

Notes to the financial statements (continued)

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

Reconciliation of effective tax rate

The tax charge is lower (2010: credit is higher) than the standard rate of corporation tax in the UK of 26.5% (2010: 28%) applied to the loss for the year due to the following factors:

	2011 £	2010 £
Profit/(loss) before tax	**42,324,479**	**(19,813,572)**
Income tax using the corporation tax rate of 26.5% (2010: 28%)	(11,215,987)	5,547,800
Non deductible expenses - impairment of investment securities	(14,015,086)	21,789,868
Change in rate	(4,359,516)	(2,062,440)
Prior year adjustment	7,301,342	(2,395,447)
Book gains covered by indexation/SSE	17,506,345	-
Total income tax (charge)/credit	**(4,782,902)**	**22,879,781**

Current income tax assets and liabilities

The current income tax liability of £1,191,215 (2010: current income tax asset £18,147,727) represents the net amount of income taxes payable in respect of current and prior years.

9. Investments in subsidiaries

	2011 £	2010 £
Cost	1,000	1,000
Provision	(1,000)	(1,000)
Fair Value	-	-

The value of investments in subsidiary undertakings is nil (2010: nil).

Detail of the subsidiary undertaking, which is incorporated in the UK, is noted below:

Name of company	**% of Ordinary shares held**	**Principal business**	**Reference date**	**Country of incorporation**
Uberior Co-Investments Ltd	100	Investment	31 December	UK

10. Investments

	2011 £	2010 £
Investments		
Equity securities	1,216,590,622	1,079,265,912
	1,216,590,622	**1,079,265,912**
Income statement impairment charge in the year:		
Equity securities	(32,695,443)	(17,987,971)
	(32,695,443)	**(17,987,971)**

Notes to the financial statements (continued)

10. Investments (continued)

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

	2011 £	2010 £
At 1 January	1,079,265,912	1,021,892,347
Exchange translation	(40,718,723)	(27,352,248)
Movements in available for sale reserve	76,541,712	145,810,722
Amounts written off investments	(32,695,443)	(17,987,971)
Additions	230,781,746	381,026,430
Disposals	(96,584,582)	(166,589,916)
	1,216,590,622	**1,336,799,364**
Transfer to investments held for sale	-	(257,533,452)
As at 31 December	**1,216,590,622**	**1,079,265,912**

11. Investments held for sale

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

	2011 £	2010 £
As at 1 January	257,533,452	-
Transfer in from assets designated as available for sale	-	257,533,452
Movements in available for sale reserve	(70,137,101)	-
Disposals	(187,396,351)	-
As at 31 December	**-**	**257,533,452**

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

12. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

For the year ended 31 Dec 2011	**Balance at 1 Jan £**	**Recognised in income £**	**Recognised in equity £**	**Balance at 31 Dec £**
Other	55,684,833	(2,452,858)	-	53,231,975
Available for sale equities	(74,879,672)	-	6,593,293	(68,286,379)
Total	**(19,194,839)**	**(2,452,858)**	**6,593,293**	**(15,054,404)**

For the year ended 31 Dec 2010	**Balance at 1 Jan £**	**Recognised in income £**	**Recognised in equity £**	**Balance at 31 Dec £**
Other	30,920,773	24,764,060	-	55,684,833
Available for sale equities	(40,233,210)	-	(34,646,462)	(74,879,672)
Total	**(9,312,437)**	**24,764,060**	**(34,646,462)**	**(19,194,839)**

Notes to the financial statements (continued)

12. Deferred tax assets and liabilities (continued)

Deferred tax assets of £70,594,558 (2010: £87,336,693) 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.

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 £1,124,327, comprising a £4,359,516 charge to the income statement and a £5,483,843 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 £602,176 and will be reflected in the financial statement 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.

13. Cash and cash equivalents	**2011**	**2010**
	£	**£**
Bank balances	8,838,061	2,035,883
Bank overdrafts	(312,883,063)	(638,229,608)
Cash and cash equivalents in the statement of cash flows	**(304,045,002)**	**(636,193,725)**

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

14. Capital and reserves

During the year to 31 December 2011 the company's intermediate parent company, Bank of Scotland plc, agreed to unconditionally and irrevocably release the Company from its obligations to repay the sum of £258,362,061 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.

The distributable reserves of the Company are managed through the LBG Group Capital and Funding Policy in order to maximise capital efficiency within the LBG Group. Dividends are paid from reserves available for distribution to the parent undertaking as reported by the previously approved report and financial statements according to parameters set out at a Group level so as to avoid any build up of reserve balances within the Company. The available for sale reserve recognised in other comprehensive income and accumulated in equity, is not managed as part of capital.

Share capital	**Ordinary shares**	
	2011	**2010**
	£	**£**
Issued for cash	1	1
On issue at 31 December	**1**	**1**

At 31 December 2011, the issued and authorised share capital comprised 1 £1 Ordinary Share (2010: 1).

Notes to the financial statements (continued)

14. Capital and reserves (continued)

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 value reserve includes the cumulative net changes in the fair value of available for sale investments until the investment is derecognised through disposal or becomes impaired.

15. 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 17.

	2011 £	2010 £
Non-current liabilities		
Unsecured bank loans	12,941,215	436,244,185
Current liabilities		
Current portion of unsecured bank loans	891,310,436	575,145,373
Total	**904,251,651**	**1,011,389,558**

Terms and debt repayment schedule
The term loans and bank overdrafts are unsecured and represent amounts due to the Company's intermediate parent undertaking, Bank of Scotland plc. The term loans fall due for repayment at various dates between January 2012 and May 2013. Interest is fixed on each loan at the date the loan is advanced to the Company, with rates ranging from 0.25% to 5.26% (2010: 0.28% to 5.26%).

16. Trade and other payables	2011 £	2010 £
Accrued audit fee	27,720	5,288
Accrued interest	7,743,570	3,233,933
	7,771,290	**3,239,221**

17. Financial instruments

Credit risk
Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business. The table below sets out the maximum exposure to credit risk at the Balance Sheet date.

	2011 £	2010 £
On Balance Sheet:		
Cash and cash equivalents	8,838,061	2,035,883
	8,838,061	**2,035,883**

Notes to the financial statements (continued)

17. Financial instruments (continued)

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

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

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

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

Foreign exchange risk
Foreign exchange risk arises on investments, short term deposits and borrowings denominated in a currency other than Sterling. The currencies giving rise to this risk are US Dollars and Euros. The Company follows a policy of ensuring that all foreign currency investments are hedged with borrowings in the same currency.

The Company operates a fair value hedge to mitigate the foreign exchange risk arising from the impaired historic cost of available for sale equity instruments. This risk is hedged through a net portfolio of foreign currency borrowings and deposits, with £904,251,651 of borrowings being designated in a fair value hedge relationship at year end (2010: £1,011,389,558).

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

	2011 £	2010 £
Foreign exchange gain on hedging instrument	31,107,528	18,385,684
Foreign exchange loss on hedged item	(31,164,495)	(18,759,463)
Net ineffectiveness on fair value hedge	**(56,967)**	**(373,779)**

Equity risk
Equity risk exists from the Company's exposure to listed and unlisted equity shares. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is continually monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is provided in note 18.

At the reporting date the carrying value of equity investments amounted to £1,216,590,622 (2010: £1,336,799,364). For available for sale and held for sale investments, changes in fair value will be recognised in other comprehensive income through the AFS reserve, unless the investment is deemed to be impaired with changes in fair value taken to the Income Statement. The table below sets out the sensitivity of the AFS reserve (before tax) to a 10% fall in fair value of equity investments as at the Balance Sheet date.

Notes to the financial statements (continued)

17. Financial instruments (continued)

	2011 PBT £	2011 AFS reserve £	2010 PBT £	2010 AFS reserve £
Unlisted equity investments	28,717,578	88,960,351	23,874,030	62,313,050
Listed equity investments	-	3,981,133	-	2,958,658
Held for sale unlisted equity instruments	-	-	2,031,872	42,502,327
	28,717,578	**92,941,484**	**25,905,902**	**107,774,035**

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

The underlying investment sector has concentrations around Manufacturing, 22% (2010: 20%) and Financial Services, 21% (2010: 13%), but is otherwise well diversified over a variety of other sectors.

Geographic exposure is predominantly within Europe 43% (2010: 53%), the UK 34% (2010: 20%) and the US 18% (2010: 14%).

Liquidity risk
Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows relating to assets, liabilities and off-Balance Sheet instruments. The Company's short term liquidity requirements are supported by a facility with another Group company subject to internal limits. Overall liquidity of the LBG Group is managed centrally.

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

As at 31 December 2011	**Up to 1 mth** £	**1-3 mths** £	**3-12 mths** £	**1-5 yrs** £	**Total** £
Bank overdrafts	312,883,063	-	-	-	312,883,063
Interest bearing loans and borrowings	6,470,982	608,058,734	293,633,915	13,929,659	922,093,290
Amounts payable in respect of income taxes	1,191,215	-	-	-	1,191,215
Trade and other payables	-	27,720	-	-	27,720
Total liabilities	**320,545,260**	**608,086,454**	**293,633,915**	**13,929,659**	**1,236,195,288**

As at 31 December 2010	**Up to 1 mth** £	**1-3 mths** £	**3-12 mths** £	**1-5 yrs** £	**Total** £
Bank overdrafts	638,229,608	-	-	-	638,229,608
Interest bearing loans and borrowings	340,295,080	77,138,859	181,992,174	455,290,857	1,054,716,970
Trade and other payables	-	5,288	-	-	5,288
Total liabilities	**978,524,688**	**77,144,147**	**181,992,174**	**455,290,857**	**1,692,951,866**

Outstanding tax balances are settled through the LBG group.

Notes to the financial statements (continued)

18. Fair values

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

	Note	Carrying amount 2011 £	Fair value 2011 £	Carrying amount 2010 £	Fair value 2010 £
Equity shares - Available for sale	*10*	1,216,590,622	1,216,590,622	1,079,265,912	1,079,265,912
Equity shares - held for sale		-	-	257,533,452	257,533,452
Cash and cash equivalents	*13*	8,838,061	8,838,061	2,035,883	2,035,883
Bank overdrafts	*13*	(312,883,063)	(312,883,063)	(638,229,608)	(638,229,608)
Interest-bearing loans and borrowings	*15*	(904,251,651)	(907,024,184)	(1,011,389,558)	(1,038,190,173)
Trade and other payables	*16*	(7,771,290)	(7,771,290)	(3,239,221)	(3,239,221)
		522,679	**(2,249,854)**	**(314,023,140)**	**(340,823,755)**
Unrecognised losses			**(2,772,533)**		**(26,800,615)**

Estimation of fair values

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

- **Equity securities – Available for sale**

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

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

  The assets identified above as held for sale relate to the detail in Note 10 and are valued in line with those categorisations.
- **Bank overdraft**

  The fair value of unsecured bank facilities with no stated maturity date is the amount repayable on demand.
- **Interest-bearing loans and borrowings**

  The fair value is calculated based on discounted expected future principal and interest cash flows.
- **Trade and other payables**

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

Notes to the financial statements (continued)

18. Fair values (continued)

Fair value of financial instruments carried at fair value

The tables below provides an analysis the financial assets and liabilities of the Company that are carried at fair value in the Company's Balance Sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

Valuation hierarchy At 31 December 2011	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Available for sale financial assets	-	-	1,216,590,622	1,216,590,622
Financial assets	-	-	**1,216,590,622**	**1,216,590,622**

Valuation hierarchy At 31 December 2010 (revised)	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Available for sale financial assets	-	-	1,079,265,912	1,079,265,912
Investments held for sale	-	-	257,533,452	257,533,452
Financial assets	-	-	**1,336,799,364**	**1,336,799,364**

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values. Prior period balances have been revised to provide presentation consistent with the current period.

Level 1 portfolios

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

Level 2 portfolios

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

Level 3 portfolios

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

Notes to the financial statements (continued)

18. Fair values (continued)

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

	Available for sale £	Held for sale £	Total financial assets £
At 31 December 2009 (revised)	**1,021,892,347**	**-**	**1,021,892,347**
Gains/(losses) recognised in:			
- Income statement	(40,150,705)	-	(40,150,705)
- Other comprehensive income	140,621,208	-	140,621,208
Additions	381,026,430	-	381,026,430
Disposals	(166,589,916)	-	(166,589,916)
Transfers to held for sale	(257,533,452)	257,533,452	-
At 31 December 2010 (revised)	**1,079,265,912**	**257,533,452**	**1,336,799,364**
Gains/(losses) recognised in:			
- Income statement	(52,809,510)	(11,050,427)	(63,859,937)
- Other comprehensive income	55,937,054	(59,086,672)	(3,149,618)
Additions	230,781,746	-	230,781,746
Disposals	(96,584,580)	(187,396,353)	(283,980,933)
At 31 December 2011	**1,216,590,622**	**-**	**1,216,590,622**

During 2011 there were no investment securities which were transferred into or out of Level 3 of the fair value hierarchy.

Total gains or losses included in profit or loss for the year in the above tables are presented in the Income Statement as follows.

	Available for sale 2011 £	Held for sale 2011 £	Total 2011 £	Total 2010 (revised) £
Total losses included in Income Statement for the year:				
Amounts written off investments	(32,695,443)	-	(32,695,443)	(17,987,971)
Foreign exchange movement	(20,114,067)	(11,050,427)	(31,164,494)	(22,162,734)
	(52,809,510)	**(11,050,427)**	**(63,859,937)**	**(40,150,705)**
Total gains included in other comprehensive income for the year:				
Changes to fair value in available for sale investments	60,878,314	(54,473,703)	6,404,611	149,147,037
Foreign exchange movement	(4,941,260)	(4,612,969)	(9,554,229)	(8,525,829)
	55,937,054	**(59,086,672)**	**(3,149,618)**	**140,621,208**
Amounts included within loss for the year that relate to assets held at year end:				
Amounts written off investments	(32,695,443)	-	(32,695,443)	(17,987,971)
foreign exchange movement	(20,114,067)	-	(20,114,067)	(22,162,734)
	(52,809,510)	**-**	**(52,809,510)**	**(40,150,705)**
Total gains included in other comprehensive income for the year, for assets held at the end of the year:				
Changes to fair value in available for sale investments	60,878,314	-	60,878,314	149,147,037
Foreign exchange movement	(4,941,260)	-	(4,941,260)	(8,525,829)
	55,937,054	**-**	**55,937,054**	**140,621,208**

Notes to the financial statements (continued)

18. Fair values (continued)

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

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

	As at 31 December 2011			As at 31 December 2010		
	Fair value	Favourable changes	Unfavourable changes	Fair value	Favourable changes	Unfavourable changes
	£	£	£	£	£	£
Equity Investments	1,216,590.622	122,555,539	(59,165,353)	1,336,799,364	92,197,274	(54,872,853)
Financial Assets	**1,216,590.622**	**122,555,539**	**(59,165,353)**	**1,336,799,364**	**92,219,274**	**(54,872,853)**

Of the favourable figures from the table above, there would be no Income Statement impact (2010: £nil) and of the unfavourable £12,072,977 would be recognised in the Income Statement (2010: £3,253,440).

Of the favourable figures from the table above £122,555,539 would be recognised in other comprehensive income (2010: £92,197,274) and of the unfavourable £47,092,376 would be recognised in other comprehensive income (2010: £51,619,413).

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

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

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

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

Notes to the financial statements (continued)

19. Financial commitments

As at 31 December 2011, the Company has undrawn commitments in respect of private equity fund investments of £498m (2010: £788m).

20. Related parties

The Company's immediate parent undertaking is Uberior Investments Ltd (formerly Uberior Investments Plc). The Company has a related party relationship with its intermediate parent company Bank of Scotland plc.

Uberior Co-Investments Limited is a subsidiary of Uberior Fund Investments Limited.

A number of banking transactions are entered into with Bank of Scotland plc in the normal course of business including raising loans and deposits.

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

Nature of transaction	Outstanding balance at 31 December 2010 £	Outstanding balance at 31 December 2011 £	Income/(expense) included in Income Statement for the year ended 31 December 2011 £	Disclosure in financial statement
Bank balances	2,035,883	8,838,061		Cash and cash equivalents
Bank overdraft	(638,229,608)	(312,883,063)	-	Cash and cash equivalents
Term loans	(1,011,389,558)	(904,251,651)	-	Interest bearing loans and borrowing
Interest income	-	-	26,456	Other income
Interest payable	(3,233,933)	(7,743,570)	(32,101,930)	Financing costs
Accrued audit fee	(5,288)	(27,720)	(48,833)	Trade and other payables / Other expenses

21. Parent undertakings

As at 31 December 2011 the Company's immediate parent company was Uberior Investments Ltd (formerly Uberior Investments Plc). The company regarded by the directors as the ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has produced consolidated accounts for the year ended 31 December 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.

22. Post balance sheet events

Disposal of assets

Subsequent to the year end the Company has entered into an arrangement to dispose of a portfolio of assets with a fair value of £274m as at 31 December 2011. As at 11 June 2012 this transaction was partially complete with a net gain of £41.3m being recognised in the income statement.