# UBERIOR FUND INVESTMENTS LIMITED

# REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2014

# MEMBER OF LLOYDS BANKING GROUP

**Company Number**: SC272465

**Director**
P S Dickson

**Secretary**
Lloyds Secretaries Limited

**Registered office**
Level 1
Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

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

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

**STRATEGIC REPORT**
**For the year ended 31 December 2014**

The Director submits the strategic report on Uberior Fund Investments Limited ('the Company') for the year ended 31 December 2014.

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

**Business review**
During the year the Company managed investments for value and where appropriate supported the investments with additional funding. The business is funded by the Company's intermediate parent undertaking, Bank of Scotland plc. On the basis that the Company is an investment holding company, its performance is considered in respect of the underlying investment portfolio performance and valuations. As such, the key financial performance indicators relate to investment gains on disposal and valuation movements e.g. movements in the fair value of investments.

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.

During the year the Company disposed of £243,832,983 of fund investments and securities (2013: £100,576,599). Investment additions in the year totalled £150,263,553 (2013: £12,850,209).

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

The Company has no employees (2013: none) and therefore the Director has not commented on employee matters.

**Risk management**
The key risks and uncertainties faced by the Company are managed within the framework established for the Lloyds Banking Group plc Group of companies ('the Group'). Exposure to credit risk, interest rate risk, foreign exchange risk, equity risk and liquidity risk arises in the normal course of the Company's business. These risks are explained in Note 16 to the financial statements.

On behalf of the Board

Pamela S Dickson

P S Dickson
**Director**

23 June 2015

Company Number: SC272465
Registered Office: Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE

**DIRECTORS' REPORT**
**For the year ended 31 December 2014**

The Director, as stated on page 2, submits the report and audited financial statements of Uberior Fund Investments Limited ('the Company') for the year ended 31 December 2014.

**Incorporation**
The Company was incorporated in Scotland on 26 August 2004.

**Parent undertaking**
The Company is a wholly owned subsidiary of Uberior Investments Limited. The ultimate parent undertaking and controlling party is Lloyds Banking Group plc a company incorporated in Scotland.

**Results and dividends**
The profit after tax for the year is £70,227,584 (2013: £7,284,119). The Director does not recommend the payment of a dividend in 2014 (2013: £nil).

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

**Directors' indemnities**
The Group has granted to the Directors of the Company, including former Directors who resigned during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

**Directors and their interests**
The Director at the date of this report is as stated on page 2. Director's dates of resignation subsequent to the year end is as follows:

| **Director** | **Date of Resignation** |
|---|---|
| J Digges | 30/01/2015 |

The other Director 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.

**DIRECTORS' REPORT (continued)**
**For the year ended 31 December 2014**

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

The 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.

**Statement of Directors' responsibilities**
The Directors are responsible for preparing the Directors' and strategic reports and the financial statements in accordance with applicable law and regulations.

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

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

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

On behalf of the Board,

Pamela S Dickson

P S Dickson
**Director**

23 June 2015
Company Number: SC272465
Registered Office: Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE

# *Independent auditors' report to the members of Uberior Fund Investments Limited*

## Report on the financial statements

### Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

### What we have audited

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

- the Income Statement and Statement of Comprehensive Income for the year ending 31 December 2014;
- the Balance Sheet for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

### What an audit of financial statements involves

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

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

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

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

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

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

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

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

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
25 June 2015

**INCOME STATEMENT**
**For the year ended 31 December 2014**

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| Investment income | 4 | **5,804** | 330 |
| Profit on disposal of investments | | **71,747** | 4,991 |
| Finance income | 6 | **-** | 1 |
| **Total Income** | | **77,551** | 5,322 |
| Administrative expenses | 5 | **(776)** | (841) |
| Finance costs | 6 | **(234)** | (638) |
| **Profit before tax** | | **76,541** | 3,843 |
| Income tax (charge)/credit | 7 | **(6,313)** | 3,441 |
| **Profit after tax for the year** | | **70,228** | 7,284 |
| **Attributable to:** | | | |
| Owners | | **70,228** | 7,284 |
| **Profit for the year** | | **70,228** | 7,284 |

The notes on pages 13 to 32 are an integral part of these financial statements.

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

**STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended 31 December 2014**

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Profit for the year** | | **70,228** | 7,284 |
| **Other comprehensive income:** | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Movements in available-for-sale financial assets: | | | |
| - changes in fair value | | **31,998** | 48,444 |
| - amounts recognised in the income statement | | **(71,747)** | (4,991) |
| | | **(39,749)** | 43,453 |
| Currency translation difference, before tax | | **(1,597)** | (382) |
| Movements in deferred tax | *10* | **8,270** | (7,906) |
| **Other comprehensive income for the year** | | **(33,076)** | 35,165 |
| **Total comprehensive income for the year** | | **37,152** | 42,449 |
| **Attributable to:** | | | |
| Owners | | **37,152** | 42,449 |
| **Total comprehensive income for the year** | | **37,152** | 42,449 |

The notes on pages 13 to 32 are an integral part of these financial statements.

## BALANCE SHEET
**As at 31 December 2014**

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Assets** | | | |
| Investments | 9 | **27,311** | 165,494 |
| Bank balances | 11 | **934** | - |
| Trade and other receivables | 12 | **-** | 562 |
| Current income tax asset | 7 | **-** | 4,763 |
| **Total assets** | | **28,245** | 170,819 |
| **Equity** | | | |
| Capital reserve | 13 | **258,814** | 258,814 |
| Available-for-sale reserve | | **10,295** | 43,372 |
| Accumulated losses | | **(243,756)** | (313,984) |
| **Total equity** | | **25,353** | (11,798) |
| **Liabilities** | | | |
| Deferred tax liability | 10 | **2,292** | 4,882 |
| Current tax liability | 7 | **588** | - |
| Bank overdraft | 11 | **-** | 80,869 |
| Interest-bearing loans and borrowings | 14 | **-** | 96,842 |
| Trade and other payables | 15 | **12** | 24 |
| **Total liabilities** | | **2,892** | 182,617 |
| **Total equity and liabilities** | | **28,245** | 170,819 |

The notes on pages 13 to 32 are an integral part of these financial statements.

The financial statements on pages 8 to 32 were approved by the Director and signed by:

P S Dickson
**Director**

23 June 2015
Company Number: SC272465

**STATEMENT OF CHANGES IN EQUITY**
**For the year ended 31 December 2014**

| | Capital reserve | Available-for-sale reserve | Accumulated losses | Total equity |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balance at 1 January 2013 | 258,814 | 8,207 | (321,268) | (54,247) |
| Comprehensive income | | | | |
| Profit for the year | - | - | 7,284 | 7,284 |
| Other comprehensive income | - | 35,165 | - | 35,165 |
| Total comprehensive income | - | 35,165 | 7,284 | 42,449 |
| **Balance at 1 January 2014** | **258,814** | **43,372** | **(313,984)** | **(11,798)** |
| **Comprehensive income** | | | | |
| **Profit for the year** | **-** | **-** | **70,228** | **70,228** |
| **Other comprehensive income** | **-** | **(33,076)** | **-** | **(33,077)** |
| **Total comprehensive income** | **-** | **(33,076)** | **70,228** | **37,151** |
| **Balance at 31 December 2014** | **258,814** | **10,295** | **(243,756)** | **25,353** |

The notes on pages 13 to 32 are an integral part of these financial statements.

## CASH FLOW STATEMENT
**For the year ended 31 December 2014**

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **76,541** | 3,843 |
| Adjustments for : | | | |
| Decrease in trade and other payables | | **(12)** | (1,348) |
| Increase/ (Decrease) in trade and other receivables | | **562** | (548) |
| Finance income | *6* | **-** | (1) |
| Finance costs | *6* | **234** | 638 |
| Profit on disposal of investments | | **(71,747)** | (4,991) |
| **Cash used in operations** | | **5,578** | (2,407) |
| Interest paid | | **(159)** | (2,208) |
| Amounts received/(paid) in respect of income taxes | | **4,719** | (1,775) |
| **Net cash used in operating activities** | | **10,138** | (6,390) |
| **Cash flows from investing activities** | | | |
| Acquisition of investments | | **(149)** | (12,850) |
| Proceeds from sale of investments | | **165,465** | 96,580 |
| **Net cash generated from investing activities** | | **165,316** | 83,730 |
| **Cash flows from financing activities** | | | |
| Decrease in borrowings | | **(96,842)** | (94,425) |
| **Net cash used in financing activities** | | **(96,842)** | (94,425) |
| Net increase/(decrease) in cash and cash equivalents | | **78,612** | (17,085) |
| Cash and cash equivalents at 1 January | | **(80,869)** | (64,494) |
| Foreign exchange rate movements on cash held | | **3,191** | 710 |
| **Cash and cash equivalents at 31 December** | *11* | **934** | (80,869) |

The notes on pages 13 to 32 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2014**

## 1. Significant accounting policies

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

The financial statements were authorised for issue by the Director on 23 June 2015

### (a) Financial Statements

The financial statements of Uberior Fund Investments 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 pound Sterling which is the Company's functional and presentation currency

### (b) Statement of compliance

The 2014 statutory financial statements set out on pages 8 to 32 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 presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (c) Basis of preparation

The financial statements have been prepared under the historical cost basis, except that the following assets are stated at their fair value: financial instruments classified as available-for-sale.

The Company has adopted the following new standards which became effective for financial years beginning on or after 1 January 2014. These standards did not have a material impact on these financial statements.

**Change in accounting policy**

*Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 clarify the requirements for offsetting financial instruments and address inconsistencies identified in applying the offsetting criteria used in the standard.

*IFRIC 21 Levies*

This interpretation clarifies that the obligating event that gives rise to a liability to pay a government levy is the activity that triggers the payment of the levy as set out in the relevant legislation and that an entity's expectation of operating in a future period, irrespective of the difficulties involved in exiting a market, does not create a constructive obligation to pay a levy.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

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

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

**Future accounting developments**

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ended 31 December 2014 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Company.

| Pronouncement | Nature of change | IASB effective date |
|---|---|---|
| IFRS 9 *Financial Instruments*[1] | Replaces IAS 39 *Financial Instruments: Recognition and Measurement.*<br><br>IFRS 9 requires financial assets to be classified into three measurement categories, fair value through profit and loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The classification and measurement change is not expected to have a significant impact on the Company.<br><br>IFRS 9 also replaces the existing IAS 39 'incurred loss' impairment approach with an expected credit loss approach. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope. Those changes may result in an increase in the Company's balance sheet provisions for credit losses at the initial application date (1 January 2018) depending upon the composition of the Company's amortised cost financial assets, as well as the general economic conditions and the future outlook.<br><br>The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The general hedging change is not expected to have a significant impact on the Company. | Annual periods beginning on or after 1 January 2018 |
| IFRS 15 *Revenue from Contracts with Customers*[1] | Replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts.* IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Company. | Annual periods beginning on or after 1 January 2017 |

[1] As at date of this report, these pronouncements are awaiting EU endorsement.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

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

**(d) Foreign currency**

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

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

**(e) 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.

**(f) Investments**

**Investments in subsidiary undertakings**

Subsidiaries are entities controlled by the Company. The Company controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of these factors. Details of the subsidiary are given in Note 18 'Investment in subsidiary undertaking'.

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

**Investments in equity securities**

All investment securities are classified as available-for-sale. They are initially recognised at fair value plus directly related incremental transaction costs and subsequently carried on the Balance Sheet at fair value. Unrealised gains and losses arising from changes in the fair values are recognised in the Statement of other Comprehensive Income and accumulated in the Available-for-sale reserve, until the financial asset is either sold or matures, at which time the previously unrecognised gains and losses are reclassified from Other Comprehensive Income to Other Operating Income in the Income Statement. Impairment losses are recognised immediately in the Income Statement as impairment on investment securities. Income from available-for-sale assets is recognised in the Income Statement within Investment Income in the period in which they occur.

**(g) 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 and available-for-sale financial assets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

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

**(g) Financial assets (continued)**

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise of 'Trade and other receivables' and 'Bank balances' in the Balance Sheet (Notes 1(h),(i)).

**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 and are recognised in the Balance Sheet at their fair value, inclusive of transaction costs. Available-for-sale financial assets are those intended to be held for an indeterminate period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Company's available-for-sale assets 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. Loans and receivables are subsequently carried at amortised cost using the effective interest method less provision for impairment. Available-for-sale financial assets are subsequently carried at fair value. 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.

**(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 impairment losses.

**(i) Cash and cash equivalents**

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

**(i) 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**

The Company's other financial liabilities comprise of 'Bank overdraft', 'Interest-bearing loans and borrowings' and 'Trade and other payables' in the Balance Sheet (Notes 1(i),(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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

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

**(k) Interest-bearing loans and 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 loans 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(m) Share capital**

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

**(n) 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.

**(o) Revenue recognition**

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

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

Interest income is recognised in the Income Statement as it accrues, using the effective interest method.

**(p) 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.

**q) Impairment of assets**

**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;
- 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

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

**(q) Impairment of assets (continued)**

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

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

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

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

**Non-financial assets**

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

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.

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.

**(r) 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. Interest payable is recognised in the Income Statement using the effective interest rate method. The effective interest rate is established on initial recognition of the financial liability and is not subsequently revised.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

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

**(s) Taxation**

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

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

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

**(t) Offsetting financial instruments**

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

**2. Critical accounting estimates and judgements**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

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

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

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

- Non-derivative financial assets, other than those held for trading, where there is no active market and which have fixed or determinable payments are classified as 'loans and receivables';
- The Company has chosen not to designate any financial assets as 'held to maturity';
- All other financial assets are classified as 'available-for-sale'; and
- All other financial liabilities are classified as 'at amortised cost'.

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

**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. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred only when there is objective evidence of impairment. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset.

The disappearance of active markets, declines in market value and ratings downgrades do not in themselves constitute objective evidence of impairment. The determination of whether or not objective evidence of impairment is present at the Balance Sheet date requires the exercise of management judgement.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

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

**(c) Fair values**

In accordance with IFRS 13 'Fair Value Measurement' the Company categories financial instruments carried on the Balance Sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore 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 valuation techniques involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information.

Valuation techniques for level 2 financial instruments use inputs that are based on observable market data. Level 3 financial instruments are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. At 31 December 2014 the Company classified £27,310,978 of financial assets (2013: £165,493,795) as level 3 financial instruments.

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

**(d) Deferred tax**

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

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

The Director is 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.

| **4. Investment income** | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Income from available-for-sale financial assets | **3,904** | 330 |
| Dividend income from subsidiaries | **1,900** | - |
| Investment Income | **5,804** | 330 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

**5. Administrative expenses**

| | 2014 | 2013 |
|---|---|---|
| | **£000** | £000 |
| Management fees | **776** | 841 |

The audit fee has been accrued and paid centrally by the Company's intermediate parent, Bank of Scotland plc, which makes no recharge to the Company.

The Company has no employees (2013: none).

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

**6. Finance income/ costs**

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | **£000** | £000 |
| Finance Income | | - | 1 |
| Interest expense | | **136** | 711 |
| Foreign exchange: | | | |
| - Net ineffectiveness on fair value hedge | *16* | **18** | 33 |
| - Other | | **80** | (106) |
| Total foreign exchange | | **98** | (73) |
| Finance costs | | **234** | 638 |

**7. Taxation**

| | 2014 | 2013 |
|---|---|---|
| | **£000** | £000 |
| **Current tax** | | |
| Current year (charge)/credit | **(588)** | 267 |
| Adjustments in respect of prior years | **(43)** | 7 |
| | **(631)** | 274 |
| **Deferred tax** | | |
| Deferred tax (charge)/ credit for the year | **(6,106)** | 4,105 |
| Impact of change in tax rate | **426** | (938) |
| | **(5,680)** | 3,167 |
| **Total income tax (charge)/ credit** | **(6,313)** | 3,441 |

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

7. **Taxation (continued)**

**Reconciliation of effective tax rate**

The income tax charge (2013: credit) is better (2013: better) than the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%) applied to the profit for the year due to the following factors:

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| **Profit before tax** | **76,540** | 3,843 |
| Income tax using the corporation tax rate of 21.5% (2013: 23.25%) | **(16,456)** | (894) |
| Non deductible expenses | **-** | - |
| Change in rate | **426** | (938) |
| Prior year adjustment | **(44)** | 7 |
| Non taxable income | **408** | - |
| Tax losses no DT recognised | **34** | - |
| Gains exempted or covered by capital losses | **9,319** | 5,266 |
| Total income tax (charge)/ credit | **(6,313)** | 3,441 |

The current tax liability of £588,404 (2013: £4,763,371 current tax asset) represents the net amount of income taxes receivable/payable in respect of current and prior years.

8. **Investment in subsidiary undertaking**

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| At cost 1 January | **1** | 1 |
| Provision impairment | **(1)** | (1) |
| Fair value 31 December | **-** | - |

Details of the subsidiary undertaking are noted below:

| **Name of subsidiary** | **Proportion of ownership** | **Principal business** | **Reporting date of financial statements** | **Incorporated** |
|---|---|---|---|---|
| Uberior Co-Investments Limited | 100% | Investment holding company | 31 December | UK |

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

9. **Investments**

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| **Investments** | | |
| Equity securities – available-for-sale | **27,311** | 165,494 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

## 9. Investments (continued)

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

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| At 1 January | **165,494** | 204,692 |
| Foreign exchange movement | **(4,865)** | 5,075 |
| Movements in available-for-sale reserve | **(39,749)** | 43,454 |
| Additions | **150,264** | 12,850 |
| Disposals | **(243,833)** | (100,577) |
| As at 31 December | **27,311** | 165,494 |

## 10. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Other timing differences | **280** | 5,960 | **-** | - | **280** | 5,960 |
| Equity securities – available-for-sale | **-** | - | **(2,572)** | (10,842) | **(2,572)** | (10,842) |
| **Total** | **280** | 5,960 | **(2,572)** | (10,842) | **(2,292)** | (4,882) |

Movement in temporary differences during the year:

| | **Balance at 1 Jan 2014** | **Recognised in income** | **Recognised in equity** | **Balance at 31 Dec 2014** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Other timing differences | **5,960** | **(5,680)** | **-** | **280** |
| Equity securities – available-for-sale | **(10,842)** | **-** | **8,270** | **(2,572)** |
| **Total** | **(4,882)** | **(5,680)** | **8,270** | **(2,292)** |

| For the year ended 31 Dec 2013 | Balance at 1 Jan 2013 | Recognised in income | Recognised in equity | Balance at 31 Dec 2013 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Other timing differences | 2,793 | 3,167 | - | 5,960 |
| Equity securities – available-for-sale | (2,937) | - | (7,906) | (10,842) |
| Total | (144) | 3,167 | (7,906) | (4,882) |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

**11. Cash and cash equivalents**

| | 2014 | 2013 |
|---|---|---|
| | £000 | £000 |
| Bank balances | 934 | - |
| Bank overdraft | - | (80,869) |
| Cash and cash equivalents | 934 | (80,869) |

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

**12. Trade and other receivables**

| | 2014 | 2013 |
|---|---|---|
| | £000 | £000 |
| Amounts due by third parties | - | 10 |
| Prepayments | - | 552 |
| | - | 562 |

**13. Capital and reserves**

**Capital risk management**

The distributable reserves of the Company are managed through the Lloyds Banking Group plc Capital and Funding Policy in order to maximise capital efficiency within the Lloyds Banking Group plc. 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.

At 31 December 2014, the issued share capital comprised one (2013: one) ordinary share of £1.

As permitted by the Companies Act 2006, the Company has removed references to authorised share capital from its articles of association.

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.

**Capital reserve**

During 2014, no capital contribution was received from the Company's intermediate parent company, Bank of Scotland plc (2013: £nil).

In prior periods, the Company executed agreements with Bank of Scotland plc to unconditionally and irrevocably release the Company from its obligations in respect of bank overdraft positions held by the Company. These amounts have been recognised as capital contributions in the capital reserve and represent a realised profit for distributable reserves purposes totalling £258,813,851 (2013: £258,813,851).

**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 becomes impaired.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

## 14. Interest-bearing loans and borrowings

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Unsecured bank loans | - | 96,842 |

The carrying amount of the Company's borrowings denominated in Euros is £nil (2013: £96,842,119).

Unsecured bank facilities were payable to the Company's intermediate parent undertaking, Bank of Scotland plc, and were repaid in September 2014. Fixed interest rates were between 0.08% and 4.00%.

## 15. Trade and other payables

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Accruals | **12** | 24 |

## 16. Financial instruments

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

**Credit risk**

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

| | | **2014** | 2013 |
|---|---|---|---|
| | **Note** | **£000** | £000 |
| Bank balances | 11 | **934** | - |
| Trade and other receivables | 12 | - | 10 |
| | | **934** | 10 |

**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)

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

**16. Financial instruments (continued)**

**Interest rate risk**

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

As the Company does not incur an interest charge in its bank overdraft and all interest-bearing loans and borrowings have been repaid, the Company 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 currency giving rise to this risk is Euros. The Company follows a policy of ensuring that all foreign currency investments are hedged with borrowings in the same currency, thus minimal sensitivity to foreign exchange exposure is considered to exist. When there is impairment of available-for-sale non monetary assets the impairment is calculated in functional currency and therefore includes some of the impact of foreign currency translation.

The Company operates a fair value hedge to 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 no borrowings (2013: £96,842,119) being designated in a fair value hedge relationship at year end.

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 the Income Statement against the foreign exchange gain or loss of borrowings designated in a hedge relationship. The following net ineffectiveness on fair value hedge was recognised throughout the year:

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Foreign exchange gain on hedging instrument | **5,484** | 5,488 |
| Foreign exchange loss on hedged item | **(5,502)** | (5,455) |
| Net ineffectiveness on fair value hedge | **(18)** | 33 |

**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 17 'Fair values'.

At the reporting date the carrying value of equity investments amounted to £27,310,978 (2013: £165,493,795). For available-for-sale and (AFS) 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.

| | **2014** | **2014** | 2013 | 2013 |
|---|---|---|---|---|
| | **PBT** | **AFS reserve** | PBT | AFS reserve |
| | **£000** | **£000** | £000 | £000 |
| Unlisted equity securities | **-** | **2,731** | - | 16,549 |
| | **-** | **2,731** | - | 16,549 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

## 16. Financial instruments (continued)

**Equity risk (continued)**

The underlying investment sector has concentrations around Insurance 84% (2013: 86% Real Estate) but is otherwise well diversified over a variety of other sectors.

Geographic exposure is predominantly within Guernsey 84% (2013: Europe 86%), and the UK 16% (2013: 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 company within the Group subject to internal limits. Overall liquidity of the Group is managed centrally.

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

| **As at 31 December 2014** | | **Up to 1 mth** | **1-3 mths** | **3-12 mths** | **1-5 yrs** | **Total** |
|---|---|---|---|---|---|---|
| | | **£000** | **£000** | **£000** | **£000** | **£000** |
| **On balance sheet** | | | | | | |
| Trade and other payables | 15 | **12** | - | | - | **12** |
| **Off balance sheet** | | | | | | |
| Undrawn financial commitments | 18 | **10,283** | - | - | - | **10,283** |
| **Total liabilities** | | **10,295** | - | - | - | **10,295** |

| As at 31 December 2013 | | Up to 1 mth | 1-3 mths | 3-12 mths | 1-5 yrs | Total |
|---|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 | £000 |
| Bank overdraft | 11 | 80,869 | - | - | - | 80,869 |
| Interest-bearing loans and borrowings | 14 | 96,842 | - | - | - | 96,842 |
| Trade and other payables | 15 | 24 | - | - | - | 24 |
| **Off balance sheet** | | | | | | |
| Undrawn financial commitments | 18 | 12,763 | - | - | - | 12,763 |
| Total liabilities | | 190,498 | - | - | - | 190,498 |

**Offsetting**

The Company has no financial assets or liabilities which are subject to offsetting, enforceable master netting arrangements or similar agreements.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

## 17. Fair values

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

| | Note | **Carrying amount 2014 £000** | **Fair value 2014 £000** | Carrying amount 2013 £000 | Fair value 2013 £000 |
|---|---|---|---|---|---|
| Equity securities - available-for-sale | *9* | **27,311** | **27,311** | 165,494 | 165,494 |
| Trade and other receivables | *12* | **-** | **-** | 562 | 562 |
| Bank balances | *11* | **934** | **934** | - | - |
| Bank overdraft | *11* | **-** | **-** | (80,869) | (80,869) |
| Interest-bearing loans and borrowings | *14* | **-** | **-** | (96,842) | (96,842) |
| Trade and other payables | *15* | **(12)** | **(12)** | (24) | (24) |
| | | **28,233** | **28,233** | (11,679) | (11,679) |
| Unrecognised losses | | | **-** | | - |

**Estimation of fair values**

The following summarises the major methods and assumptions used in estimating the fair values of the 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 to align the valuation techniques with the Group valuation policy. For direct investments, a valuation is calculated using a methodology based on applying comparable sector multiples to the investment's sustainable earnings.

- **Bank balances / bank overdraft**

  The fair value of bank balances and the bank overdraft repayable on demand is considered to be equal to their carrying value.

- **Interest-bearing loans and borrowings**

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

- **Trade and other receivables/payables**

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

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

The tables below provides an analysis of the financial assets 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** | **Note** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2014** | | **£000** | **£000** | **£000** | **£000** |
| Available-for-sale financial assets | *9* | - | - | **27,311** | **27,311** |

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

**Level 1 portfolios**

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

**17. Fair values (continued)**

**Level 2 portfolios**

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

**Level 3 portfolios**

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments 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.

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

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| At 1 January | **165,494** | 204,692 |
| Gains/(losses) recognised in: | | |
| - Income Statement | **(3,266)** | 5,458 |
| - Other comprehensive income | **(41,348)** | 43,071 |
| Additions | **150,264** | 12,850 |
| Disposals | **(243,833)** | (100,577) |
| **At 31 December** | **27,311** | 165,494 |
| Gains recognised in the income statement relating to the change in fair value of those assets held at 31 December | **(2,890)** | 2,171 |
| Gains recognised in other comprehensive income relating to the change in fair value of those assets held at 31 December | **(41,348)** | 46,304 |

During 2014 there were no investment securities which were transferred into or out of Level 3 of the fair value hierarchy.

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 2014** | | | As at 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | **Fair value** | **Favourable changes** | **Unfavourable changes** | Fair value | Favourable changes | Unfavourable changes |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| **Financial assets** | **27,311** | **7,643** | **(1,366)** | 165,494 | 14,321 | (9,068) |

Of the favourable figures from the table above £7,643,304 would be recognised in other comprehensive income (2013: £14,320,513) and of the unfavourable £1,365,549 would be recognised in other comprehensive income (2013: £9,068,230) and there is no Income statement impact (2013: none).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

**17. Fair values (continued)**

The main investments 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 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 Lloyds Banking Group plc valuation policy and are calculated using International Private Equity and Venture Capital (IPEV) Guidelines.

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

- A number of earnings multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation (EBITDA). The particular multiple selected being appropriate for the type of business being valued and is derived by reference to the current market-based multiple. Consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple, and as such this multiple has been considered in establishing the possible alternatives above.

- Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, with the application of appropriate exit yields or terminal multiples and discounted using rates appropriate to the specific investment, business sector or recent economic rates of return. Recent transactions involving the sale of similar businesses may sometimes be used as a frame of reference in deriving an appropriate multiple. The rates of discount applied have been considered in establishing the possible alternatives above.

- For fund investments the most recent capital account value calculated by the fund manager is used as the basis for the valuation and adjusted, if necessary, to align valuation techniques with the 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.

**18. Financial commitments**

As at 31 December 2014, the Company has undrawn commitments in respect of private equity fund investments of £10,282,933 (2013: £12,763,489).

**19. Related parties**

The Company's immediate parent undertaking is Uberior Investments Limited. 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 raising loans and deposits.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2014**

## 19. Related parties (continued)

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 | Balance at 31 December 2014 | Balance at 31 December 2013 | Income/ (expense) included in Income Statement for the year ended 31 December 2014 | Income/ (expense) included in Income Statement for the year ended 31 December 2013 | Disclosure in Financial Statements |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | |
| Bank balances | 934 | - | - | - | Cash and cash equivalents |
| Bank overdrafts | - | (80,869) | - | - | Cash and cash equivalents |
| Term loans | - | (96,842) | - | - | Interest-bearing loans and borrowing |
| Interest income | - | - | - | 1 | Finance income |
| Interest payable | (12) | (24) | (136) | (711) | Finance costs |
| Capital contribution | 258,814 | 258,814 | | - | Capital reserve |
| Legal fees paid by intermediary parent | - | - | - | (636) | Profit on disposal of investments |
| Dividend from Subsidiary | - | - | 1,900 | - | Investment Income |

**Transactions with fellow subsidiary undertakings**

The income tax payable by the Company relates to group relief due to fellow subsidiary undertakings. The outstanding tax liability at the end of the year was £588,404 (2013: receivable £4,763,371).

## 20. Parent undertakings

The immediate parent undertaking is Uberior Investments Limited.

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

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and accounts of both companies may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.