UBERIOR FUND INVESTMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

MEMBER OF LLOYDS BANKING GROUP PLC

Company Number: SC272465

Directors
A Hulme
N S Burnett

Secretary
D D Hennessey

Registered office
The Mound
Edinburgh
EH1 1YZ

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 2017

The Directors submit their strategic report on Uberior Fund Investments Limited ("the Company") for the year ended 31 December 2017.

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.

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.

The key financial performance indicators relate to investment gains on disposal and valuation movements. During the year, the Company disposed of £12,263,000 of fund investments and securities (2016: £1,001,000) with gains on disposals of £21,765,000 (2016: £758,000). Fair value movements recognised through other comprehensive income were £20,099,000 (2016: £2,841,000). Investment additions in the year totalled £nil (2016: £32,000).

The Balance Sheet shows a net asset position of £4,376,000 (2016: £21,247,000).

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 (2016: none) and therefore the Directors have not commented on employee matters.

Risk management
The key risks and uncertainties faced by the Company are managed within the framework established for the Lloyds Banking Group plc group of companies ("the Group"). Exposure to credit risk, 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 15 to the financial statements.

On behalf of the Board

N S Burnett
Director

Date: 26 September 2018

Company Number: SC272465

DIRECTORS' REPORT
For the year ended 31 December 2017

The Directors, as listed on page 1, submit their report and audited financial statements of Uberior Fund Investments Limited ("the Company") for the year ended 31 December 2017.

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

Results and dividends
The profit before tax for the year is £27,666,000 (2016: £647,000). A dividend of £28,000,000 was declared and paid during the year (2016: £nil).

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

Directors and their interests
The Directors at the date of this report are listed on page 1. Dates of appointments and resignations during the year, or subsequent to the year end, are as follows:

Director	Date of Appointment	Date of Resignation
A C Bone	-	22 February 2018
A Hulme	22 February 2018	-

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

Directors' indemnities
Lloyds Banking Group plc has granted to the Lloyds Banking Group ('LBG') Directors of the Company, including former LBG 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 Act"). The deed was in force during the whole of the financial period and at the date of approval of the financial statements or from the date of appointment in respect of the LBG Directors who joined the Board of the Company during the financial period. LBG Directors no longer in office but who served on the Board of the Company at any time in the financial period 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 LBG Directors to the maximum extent permitted by law. The Deed for existing LBG Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate LBG Directors and Officers Liability Insurance cover which was in place throughout the financial period.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2017

Independent Auditors and disclosure of information to Independent Auditors
PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under Section 487(2) of the Act.

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that 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.

Statement of Directors' responsibilities
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 period. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of 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;
- 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 Act. 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,

N S Burnett
Director

Date: 26 September 2018

Company Number: SC272465

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

Report on the audit of the financial statements

Opinion

In our opinion, Uberior Fund Investments Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
28 September 2018

INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Investment Income	*4*	**6,000**	-
Profit on disposal of investments		**21,765**	758
Finance income		**-**	1
Total Income		**27,765**	759
Impairment charge		**(2)**	-
Administrative expenses	*5*	**(59)**	(54)
Finance costs	*6*	**(38)**	(58)
Profit before tax		**27,666**	647
Income tax (charge)/credit	*7*	**(257)**	22
Profit after tax for the year		**27,409**	669
Attributable to:			
Owners		**27,409**	669
Profit for the year		**27,409**	669

The notes on pages 12 to 29 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 2017

	Note	2017 £000	2016 £000
Profit for the year		**27,409**	*669*
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss			
Movements in available-for-sale financial assets:			
- changes in fair value		**1,666**	3,599
- amounts recognised in the income statement		**(21,765)**	(758)
		(20,099)	2,841
Movements in deferred tax	*10*	**3,819**	(541)
Other comprehensive income for the year		**(16,280)**	2,300
Total comprehensive income for the year		**11,129**	2,969
Attributable to:			
Owners		**11,129**	2,969
Total comprehensive income for the year		**11,129**	2,969

The notes on pages 12 to 29 are an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Investment in subsidiary	*8*	**1**	1
Investments	*9*	**-**	32,365
Current tax asset	*7*	**9**	22
Cash and cash equivalents	*11*	**15,366**	3,413
Total assets		**15,376**	35,801
Equity			
Share capital		**-**	-
Capital reserve	*12*	**230,814**	258,814
Available-for-sale reserve		**-**	16,280
Accumulated losses		**(226,438)**	(253,847)
Total equity		**4,376**	21,247
Liabilities			
Deferred tax liability	*10*	**-**	3,553
Interest-bearing loans and borrowings	*13*	**11,000**	11,000
Trade and other payables	*14*	**-**	1
Total liabilities		**11,000**	14,554
Total equity and liabilities		**15,376**	35,801

The notes on pages 12 to 29 are an integral part of these financial statements.

The financial statements on pages 7 to 29 were approved by the Board of Directors on 26th September 2018 and were signed on its behalf by:

N S Burnett
Director

Company Number: SC272465

STATEMENT OF CHANGES IN EQUITY

	Capital reserve £000	Available-for-sale reserve £000	Accumulated losses £000	Total equity £000
Balances at 1 January 2016	258,814	13,980	(254,516)	18,278
Comprehensive income				
Profit for the year	-	-	669	669
Other comprehensive income	-	2,300	-	2,300
Total comprehensive income	-	2,300	669	2,969
Balance at 31 December 2016	**258,814**	**16,280**	**(253,847)**	**21,247**
Comprehensive income				
Profit for the year	**-**	**-**	**27,409**	**27,409**
Other comprehensive income	**-**	**(16,280)**		**(16,280)**
Total comprehensive income	**-**	**(16,280)**	**27,409**	**11,129**
Dividends paid	**(28,000)**	**-**	**-**	**(28,000)**
Balance at 31 December 2017	**230,814**	**-**	**(226,438)**	**4,376**

The notes on pages 12 to 29 are an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit before tax		**27,666**	647
Adjustments for:			
Increase in trade and other payables		**-**	1
Finance income		**-**	(1)
Finance costs	*6*	**38**	58
Impairment charge		**2**	-
Profit on disposal of investments		**(21,765)**	(758)
Cash used in operations		**5,941**	(53)
Interest paid		**(38)**	(58)
Amounts received in respect of income taxes		**22**	28
Net cash used in operating activities		**5,925**	(83)
Cash flows from investing activities			
Acquisition of investments	*9*	**-**	(32)
Proceeds from sale of investments		**34,028**	1,759
Net cash generated from investing activities		**34,028**	1,727
Cash flows from financing activities			
Dividends paid		**(28,000)**	-
Net cash used in financing activities		**(28,000)**	-
Net increase in cash and cash equivalents		**11,953**	1,644
Cash and cash equivalents at 1 January		**3,413**	1,769
Foreign exchange rate movements on cash held		**-**	-
Cash and cash equivalents at 31 December	*11*	**15,366**	3,413

The notes on pages 12 to 29 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. Significant accounting policies

The Company is incorporated and domiciled in Scotland.

The financial statements were authorised for issue by the Directors on 26th September 2018

(a) Financial Statements

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

(b) Statement of compliance

The 2017 statutory 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 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 IFRS.

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

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

(c) Basis of preparation

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

(d) Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ended 31 December 2017 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	IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The Company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods. ***Classification and measurement*** IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. ***Impairment*** IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39. The full impact of this pronouncement is being assessed by the Company. However, the initial view is that this pronouncement is not expected to cause any material adjustments to the reported numbers in the financial statements.	Annual periods beginning on or after 1 January 2018.

Pronouncement	Nature of change	IASB effective date
IFRS 15 Revenue from Contracts with Customers	Replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

1. Significant accounting policies (continued)

(e) Foreign currency

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

Translation differences on non-monetary financial instruments classified as 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.

(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 8 '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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

1. Significant accounting policies (continued)

(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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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(g)).

(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. 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) Cash and cash equivalents

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

(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 'Interest-bearing loans and borrowings' and 'Trade and other payables' in the Balance Sheet (Notes 1(j),(k)).

(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.

(j) 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.

(k) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

1. Significant accounting policies (continued)

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

(m) 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.

(n) 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.

(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.

(p) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

1. Significant accounting policies (continued)

(p) Impairment of assets (continued)

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.

(q) Financing costs

Financing costs comprise interest payable on borrowings and foreign exchange gains and losses in relation to balances not included within the fair value hedge, for example current accounts. Interest payable is recognised in the Income Statement using the effective interest rate method. The effective interest rate is established on initial recognition of the financial liability and is not subsequently revised.

(r) Taxation

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

1. Significant accounting policies (continued)

(r) Taxation (continued)
Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

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

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

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

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

(a) Designation of financial instruments
The Company has classified its financial instruments in accordance with IAS 39 Financial Instruments: Recognition and Measurement. In some instances the classification is prescribed whilst in others the Company is able to exercise judgement in determining the classification as follows:
- Non-derivative financial assets, other than those held for trading, where there is no active market and which have fixed or determinable payments are classified as 'loans and receivables';
- 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

2. Critical accounting estimates and judgements (continued)

(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.

(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 2017 the Company classified £nil of financial assets (2016: £32,365,000) as level 3 financial instruments.

The largest asset class classified as level 3 is the Company's available-for-sale assets. Venture Capital investments are valued using International Private Equity and Venture Capital (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
Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

3. Going concern – principles underlying going concern assumption

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

4. Investment Income	2017 £000	2016 £000
Dividends received - available-for-sale financial assets	6,000	-
	6,000	-

5. Administrative expenses	2017 £000	2016 £000
Management fees	59	54
	59	54

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 (2016: 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 costs	Note	2017 £000	2016 £000
Interest expense		38	58
Foreign exchange:			
- Other		-	-
Total foreign exchange		-	-
Finance costs		38	58

Bank borrowings are interest bearing and during the year rates of interest of between 0.36% and 0.59% (2016: between 0.36% and 0.59%) were charged.

7. Income tax (charge)/credit	2017 £000	2016 £000
Current tax		
Current year (charge)/credit	9	22
	9	22
Deferred tax		
Origination and reversal of timing differences	(266)	-
	(266)	-
Total income tax charge	(257)	22

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016 further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

7. Income tax credit (continued)

Reconciliation of effective tax rate
The income tax charge (2016: credit) is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%) applied to the profit for the year due to the following factors:

	2017	2016
	£000	£000
Profit before tax	**27,668**	**647**
Income tax using the corporation tax rate of 19.25% (2016: 20.00%)	**(5,326)**	**(130)**
Disallowed items	**(9)**	-
Non-taxable items	**1,155**	
Gains exempted or covered by capital losses	**3,923**	**152**
Total income tax charge	**(257)**	**22**

The current tax asset of £9,000 (2016: £22,000 current tax asset) represents the net amount of income taxes receivable/payable in respect of current and prior years.

8. Investment in subsidiary undertaking

	2017	2016
	£000	£000
At cost 1 January	**1**	1
Fair value 31 December	**1**	1

Details of the subsidiary undertaking are noted below:

Name of subsidiary	Registered Address	Portion of ownership	Principle business	Reporting date of financial statements	Incorporated
Uberior Co-Investments Limited	The Mound, Edinburgh, EH1 1YZ	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

	2017	2016
	£000	£000
Investments		
Equity securities – available-for-sale	-	32,365
	-	32,365

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

9. Investments (continued)

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

	2017 £000	2016 £000
At 1 January	**32,365**	30,492
Movements in available-for-sale reserve	**(20,099)**	2,841
Additions	**-**	32
Disposals	**(12,264)**	(1,000)
Impairment charge	**(2)**	-
As at 31 December	**-**	32,365

10. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 **£000**	2016 £000	**2017** **£000**	2016 £000	**2017** **£000**	2016 £000
Other timing differences	-	266	-	-	-	266
Equity securities – available-for-sale	-	-	-	(3,819)	-	(3,819)
Total	-	266	-	(3,819)	-	(3,553)

Movement in temporary differences during the year:

For the year ended 31 December 2017	**Balance at 1 Jan 2017** **£000**	**Recognised in income** **£000**	**Recognised in equity** **£000**	**Balance at 31 Dec 2017** **£000**
Other timing differences	**266**	**(266)**	**-**	**-**
Equity securities – available-for-sale	**(3,819)**	**-**	**3,819**	**-**
Total	**(3,553)**	**(266)**	**3,819**	**-**

For the year ended 31 Dec 2016	Balance at 1 Jan 2016 £000	Recognised in income £000	Recognised in equity £000	Balance at 31 Dec 2016 £000
Other timing differences	266	-	-	266
Equity securities – available-for-sale	(3,278)	-	(541)	(3,819)
Total	(3,012)	-	(541)	(3,553)

11. Cash and cash equivalents

	2017 **£000**	2016 £000
Bank balances	**15,366**	3,413
Cash and cash equivalents	**15,366**	3,413

12. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

12. Capital and reserves (continued)

Capital risk management (continued)
At 31 December 2017, the issued share capital comprised one (2016: 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 2017, no capital contribution was received from the Company's intermediate parent company, Bank of Scotland plc (2016: £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 £230,814,000 (2016: £258,814,000).

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.

13. Interest-bearing loans and borrowings

	2017	2016
	£000	£000
Unsecured bank loans	**11,000**	11,000
	11,000	11,000

The carrying amount of the Company's borrowings denominated in Pounds Sterling is £11,000,000 (2016: £11,000,000).

Unsecured bank facilities are payable to the Company's intermediate parent undertaking, Bank of Scotland plc. Fixed interest rates were between 0.39% and 0.52% (2016: between 0.36% and 0.59%).

14. Trade and other payables

	2017	2016
	£000	£000
Accruals	-	1
	-	1

15. 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.

		2017	2016
	Note	**£000**	£000
Bank balances	11	**15,366**	3,413
		15,366	3,413

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

15. 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)

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

Interest rate risk
Interest rate risk exists where the Company's financial assets and liabilities have interest rates set under different bases, or which reset at different times.
As the Company does not have an interest bearing bank account and all interest-bearing loans and borrowings are at fixed rates, 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 (2016: £nil) 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. There were no hedges recognised during the year.

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 16 'Fair values'.

At the reporting date the carrying value of equity investments amounted to £nil (2016: £32,365,000). 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

15. Financial instruments (continued)

Equity risk (continued)
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.

	2017 PBT £000	2017 AFS reserve £000	2016 PBT £000	2016 AFS reserve £000
Unlisted equity securities	-	-	-	3,237
	-	-	-	3,237

The underlying investment sector has concentrations around Non-financial 100% (2016: 95% Insurance).

Geographic exposure is predominantly within UK 100% (2016: 5%), and Guernsey 0% (2016: 95%).

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 2017		**Up to 1 month £000**	**1-3 months £000**	**3-12 months £000**	**1-5 years £000**	**Total £000**
On balance sheet						
Interest bearing loans and borrowings	13	-	**11,000**	-	-	**11,000**
Off balance sheet						
Undrawn financial commitments	17	-	-	-	-	-
Total liabilities		-	**11,000**	-	-	**11,000**

As at 31 December 2016		Up to 1 month £000	1-3 months £000	3-12 months £000	1-5 years £000	Total £000
On balance sheet						
Interest bearing loans and borrowings	13	-	11,000	-	-	11,000
Off balance sheet						
Undrawn financial commitments	17	11,069	-	-	-	11,069
Total liabilities		11,069	11,000	-	-	22,069

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 2017

16. Fair values

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

	Note	Carrying amount 2017 £000	Fair value 2017 £000	Carrying amount 2016 £000	Fair value 2016 £000
Equity securities - available-for-sale	9	-	-	32,365	32,365
Bank balances	11	15,366	15,366	3,413	3,413
Interest-bearing loans and borrowings	13	(11,000)	(11,000)	(11,000)	(11,000)
Trade and other payables	14	-	-	(1)	(1)
		4,366	4,366	24,777	24,777
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 **Available-for-sale financial assets**	**Note**	**Level 1** **£000**	**Level 2** **£000**	**Level 3** **£000**	**Total** **£000**
At 31 December 2017	9	-	-	-	-
At 31 December 2016	9	-	-	32,365	32,365

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 2017

16. 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.

	2017	2016
	£000	£000
At 1 January	**32,365**	30,492
Gains recognised in:		
- Income statement	**(21,765)**	(758)
- Other comprehensive income	**1,666**	3,599
Additions	**-**	32
Disposals	**(12,264)**	(1,000)
Impairment charge	**(2)**	-
At 31 December	**-**	32,365
Gains recognised in other comprehensive income relating to the change in fair value of those assets held at 31 December	**1,666**	2,841

During 2017 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 2017			As at 31 December 2016		
	Fair value	**Favourable changes**	**Unfavourable changes**	Fair value	Favourable changes	Unfavourable changes
	£000	**£000**	**£000**	£000	£000	£000
Financial assets	-	-	-	32,365	2,130	(2,130)

Of the favourable figures from the table above £nil would be recognised in other comprehensive income (2016: £2,130,000) and of the unfavourable £nil would be recognised in other comprehensive income (2016: £2,130,000) and there is no Income Statement impact (2016: none).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

16. 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.

17. Financial commitments

As at 31 December 2017, the Company has undrawn commitments in respect of private equity fund investments of £nil (2016: £11,069,000).

18. Related parties

The Company's immediate parent undertaking is Uberior Investments Limited (The Mound, Edinburgh, EH1 1YZ). 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.
The registered offices of related parties are noted below:

Related party	Registered address
Bank of Scotland Plc	The Mound, Edinburgh, EH1 1YZ
Uberior Investments Ltd	The Mound, Edinburgh, EH1 1YZ

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

18. 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 2017	Balance at 31 December 2016	Income/ (expense) included in Income Statement for the year ended 31 December 2017	Income/ (expense) included in Income Statement for the year ended 31 December 2016	Disclosure in Financial Statements
	£000	£000	**£000**	£000	
Bank balances	**15,366**	3,413	**-**	-	Cash and cash equivalents
Term loans	**11,000**	11,000	**-**	-	Interest-bearing loans and borrowing
Interest payable	**-**	-	**(38)**	(58)	Finance costs
Capital contribution	**230,814**	258,814	**-**	-	Capital reserve

Transactions with fellow subsidiary undertakings
The income tax receivable by the Company in the prior year relates to group relief due from a fellow subsidiary undertaking. There was £22,000 due in group relief at the end of the year (2016: £28,000).

19. Parent undertakings

The immediate parent company is Uberior Investments Limited.

During the year the ownership of Uberior Investments Limited transferred from Bank of Scotland plc to LBG Equity Investments Limited.

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