UBERIOR CO-INVESTMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

MEMBER OF LLOYDS BANKING GROUP

Company Number: SC286372

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

Secretary
J E Nielsen

Registered office
Level 1
Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

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

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

REPORT OF THE DIRECTORS

Directors
The Directors, as stated on page 2, submit their report and audited financial statements of Uberior Co-Investments Limited (the "Company") for the year ended 31 December 2010.

Incorporation
The Company was incorporated on 20 June 2005.

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

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

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

Results and dividends
The results for the year are shown in the Income Statement on page 8. The Directors do not recommend the payment of a dividend in 2010 (2009: nil).

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

Risk management
The key risks and uncertainties faced by the Company are managed within the framework established for the Lloyds Banking Group plc ('the Group'). Exposure to credit risk, interest rate risk, foreign exchange risk and equity risk arises in the normal course of the Company's business. These risks are discussed below and supplementary qualitative and quantitative information is provided in note 14 to the financial statements. The Company is funded by its intermediate parent undertaking and as a result liquidity risk is managed within the Group.

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

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

Foreign exchange risk
Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The Company follows Lloyds Banking Group plc policy in ensuring that all foreign currency investments are matched with borrowings in the same currency, thus limited sensitivity to foreign exchange exposure is considered to exist. The currencies giving rise to the Company's foreign exchange risk are Euro and US Dollars.

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 15.

REPORT OF THE DIRECTORS (continued)

Going concern

As set out in Note 2 - '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 (see note 19).

Directors' indemnities

The Directors have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision". This contract came into force during the financial year and remains in force. It is available for inspection at the registered office of Lloyds Banking Group plc.

Performance

The Company's loss before tax for the financial year is £27,303,586 (2009: loss: £68,543,203). This represents an approximate decrease in loss before tax of 60%.

In 2010 the Company has assessed the requirement for impairment of investment securities. In 2009 £66,980,881 was charged to the Income Statement while this year a charge of £22,861,415 has been incurred. The stabilisation of the markets that occurred in the late part of 2009 resulted in a lower level of impairments in 2010.

The Company aims to hold each investment for the appropriate time period which will maximise returns to the Group and therefore profits recognised on disposals can fluctuate year on year.

The Balance Sheet shows total assets of £257,200,678 in 2010 compared to £256,928,123 in 2009. The increase is mainly attributable to recovery in private equity markets which has resulted in an increase in investment market value.

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.

Directors and their interests

The Directors at the date of this report are as stated on page 2. Dates of appointments and resignations were as follows:

Director	Date of Appointment	Date of Resignation
T C Murphy	24 March 2010	-
A W Géczy	24 March 2010	-
J B Molony	16 December 2010	-
G R A Shankland	-	26 May 2010
Y E Sharp	-	30 June 2010

The other Directors served throughout the year. No Director had any interest in any material contract or arrangement with the Company during or at the end of the year.

Policy and practice on payment of suppliers

The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref. URN 04/606.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the Company owed £5,288 to trade payables as at 31 December 2010 (2009: £5,288), the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is 30 days (2009: 30 days). This bears the same proportion to the number of days in the year as the aggregate of the amounts owed to trade payables at 31 December 2010 bears to the aggregate of the amounts invoiced by suppliers during the year.

REPORT OF THE DIRECTORS (continued)

Auditors and Disclosure of Information to Auditors

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

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

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

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

By Order of the Board,

Director J B MOLONY 22 June 2011

Company Number: SC286372
Registered Office: Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names are listed on page 2 of the Annual Report and financial statements confirm that:

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR CO-INVESTMENTS LIMITED

We have audited the financial statements of Uberior Co-Investments Limited for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, Statement of Equity, the Statement of Cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement (set out on page 6) the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

H Anderson

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

22 June 2011

INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 £	2009 £
Investment income	3	835,342	292,584
		835,342	292,584
Other expenses	4	(6,721)	(5,290)
		(6,721)	(5,290)
Profit on disposal of investments		-	5,320,711
Amounts written off investments	8	(22,861,415)	(66,980,881)
Operating loss before financing costs		(22,032,794)	(61,372,876)
Financing costs	5	(5,270,792)	(7,170,327)
Loss before tax		(27,303,586)	(68,543,203)
Income tax receivable/(payable)	6	10,678,608	(867,919)
Loss after tax for the year		(16,624,978)	(69,411,122)
Attributable to:			
Equity holders		(16,624,978)	(69,411,122)
Loss for the year		(16,624,978)	(69,411,122)

The notes on pages 13 to 31 form part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	2010 £	2009 £
Loss for the year		(16,624,978)	(69,411,122)
Other comprehensive income:			
Movements in available for sale financial assets:			
- changes in fair value		61,933,713	(16,765,937)
- reclassified to the Income Statement as impairment		3,092,916	3,310,270
- movements in deferred tax	*9*	(15,227,282)	1,715,813
Currency translation differences		1,237,682	152,612
Other comprehensive income/(loss) for the year, net of tax		51,037,029	(11,587,242)
Total comprehensive income/(loss) for the year		34,412,051	(80,998,364)
Attributable to:			
Equity holders		34,412,051	(80,998,364)
Total comprehensive income/(loss) for the year		34,412,051	(80,998,364)

The notes on pages 13 to 31 form part of these financial statements.

BALANCE SHEET

As at 31 December 2010

	Note	2010 £	2009 £
Assets			
Investments	*8*	247,499,089	196,318,345
Total non-current assets		247,499,089	196,318,345
Cash and cash equivalents	*10*	1,330,209	44,752,879
Term Deposits	*10*	8,371,380	-
Income tax receivable	*7*	-	15,856,899
Total current assets		9,701,589	60,609,778
Total assets		257,200,678	256,928,123
Equity			
Issued capital	*11*	1,000	1,000
Reserves		57,457,734	6,420,705
Retained earnings		(159,341,083)	(142,716,105)
Total equity		(101,882,349)	(136,294,400)
Liabilities			
Interest bearing loans & borrowings	*12*	77,635,715	123,640,292
Deferred tax liability	*9*	14,682,417	8,764,373
Total non-current liabilities		92,318,132	132,404,665
Bank overdrafts	*10*	233,049,020	244,711,561
Interest bearing loans & borrowings	*12*	32,822,273	15,504,285
Trade and other payables	*13*	457,236	602,012
Income tax payable	*7*	436,366	-
Total current liabilities		266,764,895	260,817,858
Total liabilities		359,083,027	393,222,523
Total equity and liabilities		257,200,678	256,928,123

The notes on pages 13 to 31 form part of these financial statements.

Approved by the Board at a meeting on June 2011 and signed on its behalf by:

J B Molony

Director **Director**

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital	Available for sale reserve	Retained earnings	Total equity
	£	£	£	£
Balance at 1 January 2009	1,000	18,007,947	(73,304,983)	(55,296,036)
Loss for the year				
Loss after taxation	-	-	(69,411,122)	(69,411,122)
Other comprehensive income				
Fair value loss on available for sale financial assets	-	(11,739,854)	-	(11,739,854)
Currency translation differences on available for sale financial assets	-	152,612	-	152,612
Total other comprehensive income	-	(11,587,242)	-	(11,587,242)
Total comprehensive income/(loss)	-	(11,587,242)	(69,411,122)	(80,998,364)
Balance at 1 January 2010	1,000	6,420,705	(142,716,105)	(136,294,400)
Loss for the year				
Loss after taxation	-	-	(16,624,978)	(16,624,978)
Other comprehensive income				
Fair value gain on available for sale financial assets	-	49,799,347	-	49,799,347
Currency translation differences on available for sale financial assets	-	1,237,682	-	1,237,682
Total other comprehensive income	-	51,037,029	-	51,037,029
Total comprehensive income/(loss)	-	51,037,029	(16,624,978)	34,412,051
Balance at 31 December 2010	1,000	57,457,734	(159,341,083)	(101,882,349)

The notes on pages 13 to 31 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 £	2009 £
Cash flows from operating activities			
Operating loss before financing costs		(22,032,794)	(61,372,876)
Increase in trade & other payables		-	113
Profits on disposal of investments		-	(5,320,711)
Amounts written off investments	*8*	22,861,415	66,980,881
Exchange movement		(50,942)	(202,338)
Cash generated from operations		777,679	85,069
Interest paid		(5,271,727)	(7,441,280)
Tax received / (paid)		17,662,635	(11,418,003)
Net cash from operating activities		13,168,587	(18,774,214)
Cash flows from investing activities			
Acquisition of investments	*8*	(10,440,788)	(3,551,408)
Proceeds from sale of investments		2,818,854	120,875,357
Net cash from investing activities		(7,621,934)	117,323,949
Cash flows from financing activities			
Decrease in borrowings	*12*	(28,686,588)	(138,674,547)
Cash invested in term deposits		(8,371,380)	-
Exchange rate movement		(3,737,188)	17,287,524
Net cash from financing activities		(40,795,156)	(121,387,023)
Net decrease in cash and cash equivalents		(35,248,503)	(22,837,288)
Cash and cash equivalents at 1 January		(199,958,682)	(174,482,382)
Exchange movement on cash held		3,488,374	(2,639,012)
Cash and cash equivalents at 31 December	*10*	(231,718,811)	(199,958,682)

The notes on pages 13 to 31 form part of these financial statements.

Notes to the financial statements

1. Significant accounting policies

Uberior Co-Investments Limited is a company domiciled in Scotland.

The financial statements were authorised for issue by the Directors on June 2011

(a) Financial statements

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

(b) Statement of compliance

The 2010 statutory financial statements set out on pages 8 to 31 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union. The 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.

(c) Basis of preparation

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

The Company has adopted the following new standards and amendments to standards which became effective for financial years beginning on or after 1 January 2010. None of these standards or amendments had a material impact on these financial statements:

- IAS 1 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- IFRS 3 'Business Combinations'. This revised standard applies prospectively to business combinations from 1 January 2010. The revised standard continues to require the use of the acquisition method of accounting for business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, some contingent payments are subsequently remeasured at fair value through income, goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the non-controlling interest, and all transaction costs are expensed (other than those in relation to the issuance of debt instruments or share capital).
- IFRS 5 'Non-current assets held for sale and discontinued operations'. The amendment specifies the disclosures required in respect of non-current assets classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 and paragraph 125.
- IAS 27 'Consolidated and Separate Financial Statements'. Require the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control; any remaining interest in an investee is remeasured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.
- IAS 36 'Impairment of Assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRIC 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(c) Basis of preparation (continued)

- IFRIC 17 'Distribution of Non-cash Assets to Owners'. Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative).
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items'. Clarifies how the principles underlying hedge accounting should be applied in particular situations.
- 'Improvements to IFRS' (issued April 2009). Sets out minor amendments to IFRS standards as part of the annual improvements process.

(d) IFRS and IFRIC not yet applied

The following pronouncements will be relevant to the Company but were not effective at 31 December 2010 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the Company.

Pronouncement	*Nature of change*	*IASB effective date*
IFRS 9 *Financial Instruments: Classification and Measurement*	Replaces those parts of IAS 39 'Financial Instruments: recognition and Measurement' relating to classification, measurement and derecognition of financial assets and liabilities. It requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity investment categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39. IFRS 9 is the initial stage of the project to replace IAS 39. Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39.	Annual periods beginning on or after 1 January 2013
Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*	Requires rights issues denominated in a currency other than the functional currency of the issuer to be classified as equity regardless of the currency in which the exercise price is denominated.	Annual periods beginning on or after 1 February 2010.
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	Clarifies that when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor, a gain or loss is recognised in the Income Statement representing the difference between the carrying value of the financial liability and the fair value of the equity instruments issued; the fair value of the financial liability is used to measure the gain or loss where the fair value of the equity instruments cannot be reliably measured. It is consistent with the Company's existing accounting policy.	Annual periods beginning on or after 1 July 2010.
Improvements to IFRSs (issued May 2010)	Sets out minor amendments to IFRS standards as part of the annual improvement process.	Dealt with on a standard by standard basis but none are effective any earlier than annual periods beginning on or after 1 July 2010.
Amendments to IAS 24 *Related Party Disclosures*	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities.	Annual periods beginning on or after 1 January 2011
Amendment to IFRS 7 *Financial Instruments: Disclosures – Disclosures-Transfer of Financial Asset*	Requires additional disclosures in respect of risk exposures arising from transferred financial assets.	1 July 2011

Table note: At the date of this report, IFRS 9, Improvements to IFRSs (Issued May 2010) and Amendments to IFRS 7 are awaiting EU endorsement.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(e) Foreign currency

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

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

Translation differences on non-monetary financial instruments classified as available for sale financial assets are 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) 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 interest bearing term loans that are designated and qualify as fair value hedges are recorded in the Income Statement, together with the gain or loss on the hedged portion of the available for sale asset. The net hedge ineffectiveness is recognised in the Income Statement in 'Financing costs'.

(g) Investments

Financial assets
On initial recognition, financial assets are classified into available for sale financial assets or loans and receivables.

Debt securities
Debt securities for which there is no active market are classified as loans and receivables. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the Balance Sheet at amortised cost using the effective interest rate method less provision for impairment. Income on debt securities is recognised upon receipt where it cannot be reliably estimated.

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

Notes to the financial statements (continued)

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

(g) Investments (continued)

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

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

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

(h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and overdrafts held within the Lloyds Banking Group that are freely available and deposits held within Lloyds Banking Group plc.

(j) Impairment of investments and financial assets

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

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

Debt securities accounted for at amortised cost
At each Balance Sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition and prior to the Balance Sheet date, there is objective evidence that a financial asset has become impaired.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments or principal and/or interest;
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty;
- Restructuring of debt to reduce the burden on the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy or individual voluntary arrangement proceedings.

If there is objective evidence that an impairment loss has been incurred, an allowance is established which is calculated as the difference between the Balance Sheet carrying value of the asset and the present value of the estimated future cash flows discounted at that asset's original effective interest rate and the amount of the impairment loss is recognised in the Income Statement.

For impaired debt instruments which are held at amortised cost, impairment losses are recognised in subsequent periods when it is determined that there has been a further negative impact on expected future cash flows.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(j) Impairment of investments and financial assets (continued)

At the end of each Balance Sheet date 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.

(k) Interest bearing borrowings

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

(l) Dividends

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

(m) Trade and other payables

Trade and other payables are stated at cost.

(n) Financing costs

Financing costs comprise interest payable on borrowings and foreign exchange gains and losses in relation to net ineffectiveness on the fair value hedge and other foreign exchange gains and losses, for example in relation to unhedged foreign currency current accounts.

(o) Revenue recognition

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

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.

(p) Taxation

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

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

Notes to the financial statements (continued)

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

(p) Taxation (continued)

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

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

(q) Critical accounting estimates and judgements

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

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

Impairment of debt securities

The Company's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1 (g). The allowance for impairment losses on debt securities is management's best estimate of losses carried at amortised cost. In determining whether impairment has occurred at the Balance Sheet date the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

The determination of these allowances often requires the exercise of considerable judgement by management. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Valuation of financial instruments

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

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(q) Critical accounting estimates and judgements (continued)

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

In particular significant judgement is required by management in determining appropriate assumption to be used for level 3 financial instruments. At 31 December 2010 the Company classified £164,734,983 of financial assets (2009: £119,251,987) as level 3 financial instruments.

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

Deferred tax

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

2. Going concern – Principles underlying going concern assumption

The Company is reliant on funding provided by Bank of Scotland plc. Notwithstanding the improvement in market liquidity during 2010, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis (see note 19).

3. Investment income

	2010 £	2009 £
Income from loans and receivables	156,016	292,584
Income from available for sale investment securities	679,326	-
	835,342	292,584

4. Other expenses

	2010 £	2009 £
Audit fees	5,288	5,288
Other expenses – bank fees	1,433	2
	6,721	5,290

The emoluments of the Directors are paid by a fellow group undertaking on behalf of the ultimate parent, Lloyds Banking Group, which makes no recharge to the Company. The Directors are also directors of a number of other subsidiaries of Lloyds Banking Group and are also substantially engaged in the managing of their respective business areas within Wholesale Division of Lloyds Banking 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, the financial statements include no emoluments in respect of the Directors.

The total emoluments of the Directors are included in the financial statements of the ultimate parent company, Lloyds Banking Group.

Notes to the financial statements (continued)

5. Financing costs

	2010	2009
	£	£
Interest expense	(5,175,625)	(6,740,974)
Foreign exchange:		
Net Ineffectiveness on fair value hedge (see note 14)	(25,218)	1,088,649
Other	(69,949)	(1,518,002)
Total Foreign exchange	(95,167)	(429,353)
	(5,270,792)	(7,170,327)

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

	2010	2009
	£	£
Current tax		
Current year credit/ (charge) at a rate of 28% (2009: 28%)	1,369,370	(1,805,736)
Prior year adjustment	-	11,418,003
	1,369,370	9,612,267
Deferred tax		
Deferred tax credit/(charge)	9,572,895	(10,480,186)
Deferred tax change in rate	(263,657)	-
Total income tax credit/(charge) in Income Statement	9,309,238	(10,480,186)
Total income tax credit/(charge) in Income Statement	10,678,608	(867,919)

Reconciliation of effective tax rate

The current tax recoverable is higher (2009: lower) than the standard value of corporation tax in the UK of 28% (2009: 28%) applied to the loss for the year due to the following factors:

	2010	2009
	£	£
Loss before tax	(27,303,586)	(68,543,203)
Income tax using the corporation tax rate of 28%, (2009: 28%)	7,645,004	19,192,097
Losses/(gains) which cannot be recognised for tax purposes	3,107,050	(28,218,061)
Impairment of investment securities	-	(3,259,958)
Impact of change in rate of corporation tax	(263,657)	-
Prior year adjustment	-	11,418,003
UK Dividends received (non-group)	190,211	-
	10,678,608	(867,919)

Deferred tax recognised in other comprehensive income

	2010	2009
	£	£
Relating to equity securities available for sale	15,227,282	(1,715,813)

7. Current tax assets and liabilities

The current tax liability of £436,366 (2009: asset £15,856,899) represents the net amount of income taxes payable in respect of current and prior years.

Notes to the financial statements (continued)

8. Investments

	2010 £	2009 £
Investments		
Debt securities	68,995,327	66,707,323
Equity securities	178,503,762	129,611,022
	247,499,089	196,318,345
Income Statement impairment credit/(charge) in the year:		
Debt securities	2,797,440	(2,912,478)
Equity securities	(25,658,855)	(64,068,403)
	(22,861,415)	(66,980,881)

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

	2010 £	2009 £
Gross debt securities		
As at 1 January	113,172,494	115,238,673
Exchange translation	(509,436)	(1,066,179)
Disposals	-	(1,000,000)
As at 31 December	112,663,058	113,172,494
Provision for impairment		
As at 1 January	(46,465,171)	(43,552,693)
Provisions	2,797,440	(2,912,478)
As at 31 December	(43,667,731)	(46,465,171)
Net debt securities		
As at 31 December	68,995,327	66,707,323

The Company assesses all impairments individually. Included in Debt securities are advances individually determined to be impaired with a gross amount before impairment allowances of £73,108,549 (2009: £83,261,513). The remaining gross value is neither past due or impaired.

The movement in equity securities can be summarised as follows:

	Available for sale 2010 £	Available for sale 2009 £
At 1 January	129,611,022	331,788,733
Exchange translation	768,828	(13,186,245)
Changes to fair value	66,264,311	(13,303,055)
Additions	10,440,788	3,551,408
Disposals	(2,922,332)	(115,171,416)
Amounts written off	(25,658,855)	(64,068,403)
As at 31 December	178,503,762	129,611,022

Notes to the financial statements (continued)

9. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2010	2009
	£	£
Other	(7,118,731)	2,190,507
Available for sale equities	21,801,148	6,573,866
Tax assets	14,682,417	8,764,373

Deferred tax assets of £34,173,234 (2009: £39,458,435) have not been recognised in respect of capital losses carried forward as there are no predicted future capital profits. Capital losses can be carried forward indefinitely.

Movement in temporary differences in the year

For the year ended 31 December 2010	Balance at 1 Jan 2010	Recognised in income	Recognised in equity	Balance at 31 Dec 2010
	£	£	£	£
Other	2,190,507	(9,309,238)	-	(7,118,731)
Available for sale equities	6,573,866	-	15,227,282	21,801,148
	8,764,373	(9,309,238)	15,227,282	14,682,417

For the year ended 31 December 2009	Balance at 1 Jan 2009	Recognised in income	Recognised in equity	Balance at 31 Dec 2009
	£	£	£	£
Other	(8,289,679)	10,480,186	-	2,190,507
Available for sale equities	8,289,679	-	(1,715,813)	6,573,866
	-	10,480,186	(1,715,813)	8,764,373

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. As a result the company's deferred tax liability reduced by £543,793, resulting in a charge to the Income Statement of £263,657 and a credit to other comprehensive income of £543,793.

In his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax to 26% with effect from 1 April 2011. This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011. The additional reduction to 26% is estimated to reduce the net deferred tax liability by a further £543,793 and will be reflected in the financial statements for the year ended 31 December 2011.

The proposed further reductions in the rate of corporation tax by 1% per annum to 23% from 1 April 2014 are expected to be enacted separately each year. The effect of these further changes upon the company's deferred tax balances cannot be reliably quantified at this stage.

10. Cash and cash equivalents

	2010	2009
	£	£
Bank Balances		
Cash and cash equivalents	1,330,209	44,752,879
Bank overdrafts	(233,049,020)	(244,711,561)
Cash and cash equivalents in the statement of cash flows	(231,718,811)	(199,958,682)

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

Term deposits held at 31 December 2010 of £8,371,380 are disclosed separately due to their maturity dates of greater than three months. At 31 December 2009 Term Deposits of £20,616,000 were included within cash and cash equivalents due to their maturity dates being less than three months.

Notes to the financial statements (continued)

11. Capital and reserves

The distributable reserves of the Company are managed through the Group Capital and Funding Policy in order to maximise capital efficiency within the Group. Other reserves, such as those arising on the revaluation of assets classified as 'available for sale' that are recognised in other comprehensive income and accumulated in equity, are not managed as part of capital.

Share capital

	Ordinary shares 2010 £	Ordinary shares 2009 £
On issue at 1 January and at 31 December – Fully paid	1,000	1,000

At 31 December 2010, the authorised share capital comprised 1,000 ordinary shares of £1 each.

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

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

12. Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see note 14.

		2010 £	2009 £
Non-current liabilities	Unsecured bank loans	77,635,715	123,640,292
Current liabilities	Unsecured bank loans	32,822,273	15,504,285
		110,457,988	139,144,577

Terms and debt repayment schedule
The term loans are unsecured and represent amounts due to the Company's intermediate parent undertaking, Bank of Scotland plc. The term loans fall due for repayment at various dates between January 2011 and November 2012. Interest is fixed on each loan at the date the loan is advanced to the Company, with rates ranging from 0.28% to 4.51% (2009: 0.24% to 4.96%).

13. Trade and other payables

	2010 £	2009 £
Audit fees	5,288	5,288
Accruals	451,948	596,724
	457,236	602,012

Notes to the financial statements (continued)

14. Financial instruments

Credit Risk

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

	2010	2009
	£	£
On Balance Sheet:		
Investments - Debt securities	68,995,327	66,707,323
Cash and cash equivalents	1,330,209	44,752,879
Term Deposits	8,371,380	-
	78,696,916	111,460,202

Debt securities in issue are carried at amortised cost adopting the impairment policy described within note 1(j). Other exposures consist of inter-company balances with the Lloyds Banking Group plc.

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

	2010	2009
	%	%
Good quality	30	-
Satisfactory quality	67	93
Below Standard	3	7

The definitions of internal credit ratings shown in the table above are as follows:

Good quality

Targeted return is ahead of anticipated return in original approved investment case.

Satisfactory quality

Targeted return is as originally planned during initial investment and is stable.

Below Standard

Expected return on investment/exit proceeds is falling short of original planned or approved investment case.

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)

Notes to the financial statements (continued)

14. 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.

Debt securities have both fixed interest rates and variable interest rates which respond to prevailing market rates of interest. These securities are funded by financial liabilities provided by another Lloyds Banking Group plc company. One of the facilities provided is a non-interest bearing overdraft; the others are fixed rate bank loans. Accordingly the Company is not considered to have any significant interest rate exposures.

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

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

	2010	2009
	£	£
Impact of + 25 bps shift	(3,000)	(8,000)
Impact of – 25 bps shift	3,000	8,000

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

Foreign exchange risk

Foreign exchange risk arises on investments, short term deposits and borrowings denominated in a currency other than Sterling. The currencies giving rise to this risk are US Dollars and Euros. The Company follows a policy of ensuring that all foreign currency investments are matched with borrowings in the same currency. 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 hedge the foreign exchange risk arising from the historic cost of available for sale equity instruments. This risk is hedged through a net portfolio foreign currency borrowings and deposits, with £110,457,988 of borrowings and £8,371,380 of deposits being designated in a fair value hedge relationship at year end (2009: £139,144,577 of borrowings and £43,223,217 of deposits).

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

	2010	2009
	£	£
Foreign exchange gain on hedging instrument	743,610	14,274,894
Foreign exchange loss on hedged item	(768,828)	(13,186,245)
Net ineffectiveness on fair value hedge	(25,218)	1,088,649

Notes to the financial statements (continued)

14. Financial Instruments (continued)

Equity risk
Equity risk exists from the Company's exposure to 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 15.

At the reporting date the carrying value of equity investments amounted to £178,503,762 (2009: £129,611,022). For available for sale investments, temporary changes in fair value will be recognised in other comprehensive income through the available for sale (AFS) reserve, unless the investment is deemed to be impaired with changes in fair value taken to Income Statement. The table below sets out the sensitivity of the profit before tax (PBT) and AFS reserve (before tax) to a 10% fall in fair value of equity investments as at the Balance Sheet date.

	2010 PBT £	2010 AFS reserve £	2009 PBT £	2009 AFS reserve £
Unlisted equity investments	679,615	15,793,882	156,830	11,768,369
Listed equity investments	-	1,376,878	-	1,035,904
	679,615	17,170,760	156,830	12,804,273

The investment portfolio remains well diversified across investment sector and geographic exposure.

The investment sector has concentrations around Education (22%), Manufacturing (19%) and Healthcare (19%), but is otherwise well diversified over a variety of other sectors.

Geographic exposure is within the European Union (34%), UK (35%) and the US (31%).

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 facilities with another Lloyds Banking Group plc company subject to internal limits. Overall liquidity of the Group is managed centrally.

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

As at 31 December 2010	**Up to 1 mth** £	**1-3 mths** £	**3-12 mths** £	**1-5yrs** £	**Total** £
Bank overdrafts	233,049,020	-	-	-	233,049,020
Interest bearing loans and borrowings	11,576,213	-	25,195,012	80,020,899	116,792,124
Trade and other payables	-	5,288	-	-	5,288
Total liabilities	244,625,233	5,288	25,195,012	80,020,899	349,846,432

As at 31 December 2009	**Up to 1 mth** £	**1-3 mths** £	**3-12 mths** £	**1-5yrs** £	**Total** £
Bank overdrafts	244,711,561	-	-	-	244,711,561
Interest bearing loans and borrowings	-	2,663,466	18,452,495	131,669,779	152,785,740
Trade and other payables	-	5,288	-	-	5,288
Total liabilities	244,711,561	2,668,754	18,452,495	131,669,779	397,502,589

Notes to the financial statements (continued)

15. Fair values

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

	Note	Carrying amount 2010 £	Fair value 2010 £	Carrying amount 2009 £	Fair value 2009 £
Equity securities available for sale	*8*	178,503,762	178,503,762	129,611,022	129,611,022
Debt securities loans and receivables	*8*	68,995,327	68,995,327	66,707,323	66,707,323
Cash on hand	*10*	9,701,589	9,701,589	44,752,879	44,752,879
Bank overdraft	*10*	(233,049,020)	(233,049,020)	(244,711,561)	(244,711,561)
Unsecured bank facility	*12*	(110,457,988)	(115,602,317)	(139,144,577)	(129,347,385)
Trade and other payables	*13*	(457,236)	(457,236)	(602,012)	(602,012)
		(86,763,566)	(93,490,409)	(143,386,926)	(133,589,734)
Unrecognised losses/(gains)			(6,726,843)		9,797,192

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

- **Equity securities**
  Fair value of 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 direct investments, a valuation is calculated using a methodology based on applying comparable sector multiples to the investment's sustainable earnings.

- **Debt securities**
  Where the recoverable value of a debt security is considered to be lower than its par value, an impairment has been processed to bring the carrying value down to the recoverable amount. Therefore it is considered that the carrying value of the debt securities approximates the fair value.

- **Bank overdraft**
  The fair value of unsecured bank facilities with no stated maturity date is the amount repayable on demand.

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

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

Notes to the financial statements (continued)

15. Fair values (continued)

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

Valuation hierarchy At 31 December 2010	Level 1 £	Level 2 £	Level 3 £	Total £
Available for sale financial assets	13,768,779	-	164,734,983	178,503,762
Financial assets	13,768,779	-	164,734,983	178,503,762

At 31 December 2009	Level 1 £	Level 2 £	Level 3 £	Total £
Available for sale financial assets	10,359,035	-	119,251,987	129,611,022
Financial assets	10,359,035	-	119,251,987	129,611,022

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 treasury bills and other government securities.

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

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

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

	Available for sale 2010 £	Available for sale 2009 £
At 1 January	119,251,987	331,788,733
Gains/(losses) recognised in:		
- Income Statement	(24,890,027)	(77,254,648)
- Other comprehensive income	62,854,568	(11,004,349)
Additions	10,440,788	3,551,408
Disposals	(2,922,333)	(115,171,415)
Transfers out of Level 3 portfolio	-	(12,657,742)
At 31 December	164,734,983	119,251,987

Notes to the financial statements (continued)

15. Fair values (continued)

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

	Available for sale 2010 £	Available for sale 2009 £
Total losses included in Income Statement for the year:		
Amounts written off investments	(25,658,855)	(64,068,403)
Foreign exchange movement	768,828	(13,186,245)
	(24,890,027)	(77,254,648)
Total gains included in other comprehensive income for the year:		
Changes to fair value in available for sale investments	61,616,886	(11,156,961)
Foreign exchange movement	1,237,682	152,612
	62,854,568	(11,004,349)
Amounts included within loss for the year that relate to assets held at year end:		
Amounts written off investments	(25,658,855)	(64,068,403)
Foreign exchange movement	768,828	(9,844,594)
	(24,890,027)	(73,912,997)
Total gains included in other comprehensive income for the year, for assets held at the end of the reporting year:		
Changes to fair value in available for sale investments	61,616,886	(11,156,961)
Foreign exchange movement	1,237,682	152,612
	62,854,568	(11,004,349)

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 2010			As at 31 December 2009		
	Fair value £	Favourable changes £	Unfavourable changes £	Fair value £	Favourable changes £	Unfavourable changes £
Equity Investments	164,734,983	22,301,243	(17,609,006)	119,252,987	457,457	(457,457)
Financial Assets	164,734,983	22,301,243	(17,609,006)	119,252,987	457,457	(457,457)

Of the favourable figures from the table above £22,301,243 would be recognised in other comprehensive income (2009: £125,598) and £nil would be recognised in the Income Statement (2009: £331,859).

Of the unfavourable figures £15,146,832 would be recognised in other comprehensive income (2009: £125,598) and £2,463,174 would be recognised in the Income Statement (2009: £331,859).

Notes to the financial statements (continued)

15. Fair values (continued)

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

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

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

- A number of earnings multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation (EBITDA). The particular multiple selected being appropriate for the type of business being valued and is derived by reference to the current market-based multiple. Consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple, and as such this multiple has been considered in establishing the possible alternatives above.
- Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, with the application of appropriate exit yields or terminal multiples and discounted using rates appropriate to the specific investment, business sector or recent economic rates of return. Recent transactions involving the sale of similar businesses may sometimes be used as a frame of reference in deriving an appropriate multiple. The rates of discount applied have been considered in establishing the possible alternatives above.

16. Financial commitments

As at 31 December 2010, the company had committed £322,238,000 (2009: £353,456,000) in direct investments of which nil was undrawn (2009: £nil).

17. Related parties

The Company's immediate parent undertaking is Uberior Fund Investments Limited. Its intermediate parent undertaking is Bank of Scotland plc. No dividend (2009: No dividend) was paid during the year to Uberior Fund Investments Limited.

A number of related party banking transactions are entered into with Bank of Scotland plc in the normal course of business including loans and overdrafts. Details of the related party transactions during the period are disclosed in the table below.

Nature of transaction	Outstanding balance at 1 Jan 2010 £	Outstanding balance at 31 Dec 2010 £	Income included in Income Statement for the year ended 31 Dec 2010 £	Disclosure in financial statement
Assets				
Current Account & Term Deposits	44,752,879	9,701,589	-	Cash and cash equivalents
Liabilities				
Bank overdrafts	244,711,561	233,049,020	-	Bank overdrafts
Term Loan Deposits	139,144,577	110,457,988	-	Interest bearing loans & borrowings
Interest payable	596,724	451,948	(5,175,625)	Financing costs

Notes to the financial statements (continued)

18. Parent undertakings

As at 31 December 2010 the Company's immediate parent company was Uberior Fund Investments Limited. The company regarded by the directors as the ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has produced accounts for the year ended 31 December 2010. Copies of the annual report and accounts of Lloyds Banking Group plc for the year ended 31 December 2010 may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London, EC2V 7HN.

19. Post balance sheet events

Forgiveness

Subsequent to the year end, the company's intermediate parent company, Bank of Scotland plc, agreed to unconditionally and irrevocably release the Company from its obligations to repay the sum of £100,898,272 in respect of the bank overdraft position held by the Company. This has been recognised as a capital contribution in the period subsequent to the year end, resulting in an increase in the total equity position of £100,898,272.