UBERIOR CO-INVESTMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

MEMBER OF LLOYDS BANKING GROUP

Company Number: SC286372

Director
F J Gibson
N S Burnett

Secretary
P Gittins

Registered office
Level 1
Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Atria One
144 Morrison Street
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Bankers
Bank of Scotland plc
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The Mound
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EH1 1YZ

STRATEGIC REPORT
For the year ended 31 December 2015

The Directors submit their Strategic Report on Uberior Co-Investments Limited ("the Company") for the year ended 31 December 2015.

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 existing investments.

Business Review
During the year the Company managed investments for value. 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 Lloyds Banking Group plc ("the Group") under the Equity Governance Framework.

The key financial performance indicators relate to investment gains on disposal, valuation movements and, to a lesser extent, the income received from investments.

During the year the Company did not dispose of any investments. In the prior year, a number of disposals resulted in a 2014 profit on disposal of £21,838,000. 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.

In 2013 the Company entered into a total return swap ('TRS') in relation to a significant investment which remains on the Balance Sheet as at 31 December 2015. The TRS is held on the Balance Sheet as a financial liability at a fair value of £1,353,000 (2014: £4,880,000), and includes a credit of £89,000 (2014: £4,330,000) to the Income Statement relating to a decrease (2014: decrease) in value of the liability during the year. Further disclosure in relation to the TRS is given in Note 14.

In 2015, there was a significant downward movement in the valuation of the asset designated at fair value through profit or loss which resulted in a charge to the Income Statement of £3,527,000 (2014: £19,169,000).

The Balance Sheet shows a net asset position of £6,145,000 (2014: £5,288,000). The movement is attributable to the total comprehensive income recognised for the year.

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 (2014: 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, liquidity risk and equity risk arises in the normal course of the Company's business. These risks are explained in Note 16 to the financial statements.

On behalf of the Board,

N S Burnett
Director
19th September 2016
Company number: SC286372

DIRECTORS' REPORT
For the year ended 31 December 2015

Directors
The Directors, as listed on page 2, submit their report and audited financial statements of the Company for the year ended 31 December 2015.

Incorporation
The Company was incorporated in Scotland on 20 June 2005.

Results and dividends
The profit after tax for the year is £736,000 (2014: £22,382,000 profit). No dividends were declared during the year (2014: £1,900,000)

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

Directors and their interests
The Directors at the date of this report are stated on page 2. Dates of appointment and resignation during the year, or subsequent to the year end, are as follows:

Director	Date of appointment	Date of resignation
J Digges	-	30 January 2015
F J Gibson	23 July 2015	-
P S Dickson	-	1 June 2016
N S Burnett	1 June 2016	-

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

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

Independent Auditors and disclosure of information to Independent Auditors
PricewaterhouseCoopers LLP are deemed to be reappointed 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 of the Directors' is approved:

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) the director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2015

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the 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

19th September 2016

Company number: SC286372

Independent auditors' report to the members of Uberior Co-Investments Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

What we have audited

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

- the Income Statement and Statement of Comprehensive Income for the year ending 31 December 2015;
- the Balance Sheet as at 31 December 2015;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

What an audit of financial statements involves

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

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report to the members of Uberior Co-Investments Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

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

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

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

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
20/9/2016

INCOME STATEMENT
For the year ended 31 December 2015

	Note	2015 £000s	2014 £000s
Investment income	4	**4,185**	16,764
Profit on disposal of investments		**-**	21,838
Change in fair value of financial assets and liabilities	4	**(3,438)**	(14,839)
Finance income	5	**-**	11
Total income		**747**	23,775
Other expenses	6	**(13)**	(40)
Finance costs	7	**-**	(1,360)
Profit before tax		**734**	22,375
Income tax credit	8	**2**	7
Profit after tax for the year		**736**	22,382
Attributable to:			
Owner		**736**	22,382
Profit for the year		**736**	22,382

The notes on pages 13 to 31 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 2015

	Note	2015 £000s	2014 £000s
Profit for the year		**736**	22,382
Other comprehensive profit/(loss):			
Items that may be subsequently reclassified to profit or loss:			
Movements in available-for-sale financial assets:			
- changes in fair value		**97**	(268)
- amounts recognised in the Income Statement		**-**	(21,838)
	9	**97**	(22,106)
Currency translation difference, before tax		**-**	(636)
Movements in deferred tax	*10*	**24**	4,548
Other comprehensive profit/(loss) for the year, net of tax		**121**	(18,194)
Total comprehensive profit for the year		**857**	4,188
Attributable to:			
Owners		**857**	4,188
Total comprehensive profit for the year		**857**	4,188

The notes on pages 13 to 31 are an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2015

	Note	2015 £000s	2014 £000s
Assets			
Investments	9	**5,648**	9,078
Cash and cash equivalents	11	**1,794**	1,811
Other debtors	12	**747**	-
Income tax asset	8	**123**	121
Total assets		**8,312**	11,010
Equity			
Issued capital	13	**1**	1
Available-for-sale reserve		**3,480**	3,359
Capital reserve	13	**117,392**	117,392
Accumulated losses		**(114,728)**	(115,464)
Total equity		**6,145**	5,288
Liabilities			
Deferred tax liability	10	**814**	838
Financial liabilities held at fair value through profit or loss	14	**1,353**	4,880
Trade and other payables	15	**-**	5
Total liabilities		**2,167**	5,723
Total equity and liabilities		**8,312**	11,010

The notes on pages 13 to 31 are an integral part of these financial statements.

The financial statements on pages 8 to 31 were approved by the Board and signed on its behalf by:

N S Burnett
Director

19th September 2016

Company Number: SC286372

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

	Issued capital £000s	Available-for-sale reserve £000s	Capital reserve £000s	Accumulated losses £000s	Total equity £000s
Balance at 1 January 2014	1	21,553	117,392	(135,946)	3,000
Comprehensive income					
Profit for the year	-	-	-	22,382	22,382
Other comprehensive loss					
Available-for-sale financial assets	-	(18,194)	-	-	(18,194)
Total comprehensive income	-	(18,194)	-	22,382	4,188
Dividends paid	-	-	-	(1,900)	(1,900)
Balance at 1 January 2015	**1**	**3,359**	**117,392**	**(115,464)**	**5,288**
Comprehensive income					
Profit for the year	-	-	-	**736**	**736**
Other comprehensive income					
Available-for-sale financial assets	-	**121**	-	-	**121**
Total comprehensive income	-	**121**	-	**736**	**857**
Balance at 31 December 2015	**1**	**3,480**	**117,392**	**(114,728)**	**6,145**

The notes on pages 13 to 31 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

	Note	2015 £000s	2014 £000s
Cash flows from operating activities			
Profit before tax		734	22,375
Adjustments for non-cash transactions:			
(Decrease) / increase in trade and other payables		(4)	5
Accrued investment income		(747)	(196)
Profit on disposal of investments		-	(21,838)
Interest income	5	-	(11)
Finance costs	7	-	1,360
Changes in fair value of financial assets and liabilities	4	3,438	14,839
Decrease in trade and other receivables		-	3
Cash generated from operations		3,421	16,537
Interest received		-	12
Amounts received in respect of income taxes		-	1,529
Net cash from operating activities		3,421	18,078
Cash flows from investing activities			
Proceeds from sale of investments		-	14,668
Net cash from investing activities		-	14,668
Cash flows from financing activities			
Repayment of shareholder loan		-	(952)
Dividend paid to equity shareholders	18	-	(1,900)
Redemption of financial liabilities held at fair value through profit or loss	14	(3,438)	(29,437)
Net cash used in financing activities		(3,438)	(32,289)
Net increase in cash and cash equivalents		(17)	457
Cash and cash equivalents at 1 January		1,811	2,165
Effect of exchange rate fluctuations on cash held		-	(811)
Cash and cash equivalents at 31 December	11	1,794	1,811

The notes on pages 13 to 31 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

1. Significant accounting policies

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

The financial statements were authorised for issue by the Directors on 19th September 2016

(a) Financial statements

The financial statements of the Company 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.

The financial statements are presented in pounds sterling which is the Company's functional and presentational currency.

(b) Statement of compliance

The 2015 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 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 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 and liabilities are stated at their fair value: financial instruments classified as available-for-sale ('AFS'), financial instruments designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss.

The Company has not adopted any new accounting standards during the year.

(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 2015 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

(d) Future accounting developments (continued)

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments* [1]	IFRS 9 replaces IAS 39 Financial Instruments: Recognition 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 and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the company. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change is likely to result in an increase in the Company's balance sheet provisions for credit losses although the extent of any increases will depend upon, amongst other things, the composition of the Company's lending portfolios and forecast economic conditions at the date of implementation. In February 2015, the Basel Committee on Banking Supervision published a consultative document outlining supervisory expectations regarding sound credit risk practices associated with implementing and applying an expected credit loss accounting framework. A final version is expected to be issues at the end of 2015. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018.
IFRS 15 *Revenue from Contracts with Customers* [1]	IFRS 15 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.

[1] As at the date of this report, this standard is awaiting EU endorsement.

(e) Foreign currency

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

Translation differences on equities and similar non-monetary items measured at fair value through profit or loss are recognised in the Income Statement as part of the fair value gain or loss.

Translation differences on 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

(f) Hedge accounting

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

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

(g) Financial assets and liabilities

The Company determines the classification of its financial assets at initial recognition. The Company has classified its financial assets and liabilities into the following categories: loans and receivables, fair value through profit or loss and available-for-sale; and financial liabilities as fair value through profit or loss, or other financial liabilities.

Financial assets are derecognised when the contractual 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.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation is discharged), cancelled or expire.

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

Financial instruments held at fair value through profit or loss
Financial instruments are classified at fair value through profit or loss where they are derivatives such as options or warrants, or where they are designated at fair value through profit or loss by management. Financial assets and liabilities at fair value through profit or loss are designated as such by management where they are managed as venture capital investments and evaluated on the basis of their fair value upon initial recognition. Financial assets and liabilities carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Income Statement. Financial instruments measured at fair value through profit or loss are carried on the Balance Sheet at fair value. Any gains and losses arising from change in fair value together with any interest coupons or dividends are recognised in the Income Statement within net trading income in the period in which they occur.

Available-for-sale financial assets
All the other investment securities are classified as available-for-sale financial assets. 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 or 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 2015

1. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

(h) Cash and cash equivalents

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

(i) 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.

(j) Share Capital

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

(k) 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.

(l) 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.

(m) Impairment of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

(m) Impairment of financial assets (continued)

Financial assets carried at amortised cost – the criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including adverse changes in the payment status of borrowers in the portfolio; and national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

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

When a decline in the fair value of a financial asset classified as available-for-sale has 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 impairment loss is reversed through other comprehensive income / (loss).

(n) Other expenses

Other expenses comprise of management fees.

(o) Finance costs

Finance costs comprise interest payable on loans and 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. Interest payable is recognised in the Income Statement using the effective interest rate method. The effective interest rate is established on initial recognition of the financial liability and is not subsequently revised.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

1. Significant accounting policies (continued)

(p) Taxation

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

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

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

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

(q) 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 the Company's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Company's results and financial position, are discussed below.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Critical accounting estimates and judgements (continued)

Critical judgements in applying the entity's accounting policies

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

(a) Designation of financial instruments

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

- Non-derivative financial assets, other than those held for trading, where there is no active market and which have fixed or determinable payments are classified as 'loans and receivables';
- The Company has chosen not to designate any financial assets as 'held to maturity';
- A financial asset acquired principally for the purpose of selling in the short term and derivatives are classified as at 'fair value through profit or loss';
- All other financial assets are classified as 'available-for-sale'; and
- All other financial liabilities are classified as 'at amortised cost'.

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

Critical accounting estimates and assumptions

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

(b) Impairment of investments

The Company's accounting policy for losses arising on financial assets is described in Note 1(m). 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Critical accounting estimates and judgements (continued)

Critical accounting estimates and assumptions (continued)

(c) Fair values

In accordance with IFRS 13 *Fair Value Measurement,* the Company categorises 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 there is less judgement 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 investment 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 2015 the Company classified £5,648,000 of financial assets (2014: £9,078,000) as Level 3 financial instruments.

The largest asset class classified as Level 3 is the Company's available-for-sale assets (2014: fair value through profit or loss assets). Venture Capital investments are valued using International Private Equity and Venture Capital (IPEV) Guidelines which require significant management judgement in determining appropriate earnings multiples to be applied in determining fair value. Unlisted equity investments are valued using a number of different techniques which require management to select the most appropriate assumptions, including earnings multiples, valuations to net assets, and estimated future cash flows.

(d) Deferred tax

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

3. Going concern – Principles underlying going concern assumption

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

4. Investment income

	2015	2014
	£000s	£000s
Income from equity securities – fair value through profit or loss	**3,438**	-
Income from loans and receivables	**-**	166
Income from equity securities – available-for-sale	**747**	16,598
	4,185	16,764

	2015	2014
	£000s	£000s
Change in fair value of financial assets	**(3,527)**	(19,169)
Change in fair value of financial liabilities	**89**	4,330
	(3,438)	(14,839)

5. Finance income

	2015	2014
	£000s	£000s
Interest received on term deposits	**-**	11

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

6. Other expenses

	2015 £000s	2014 £000s
Management fees	**13**	40

For the year ended 31 December 2015 and 31 December 2014, 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 (2014: 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 Lloyds Banking Group plc and are also substantially engaged in managing their respective business areas within the Lloyds Banking Group plc. It is therefore not possible to make an accurate apportionment of Directors emoluments in respect of their services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of the Directors.

7. Finance costs

	2015 £000s	2014 £000s
Foreign exchange	**-**	1,360

8. Income tax credit

	2015 £000s	2014 £000s
Current tax		
Current tax on profit for the year	**2**	121
Total current tax	**2**	121
Deferred tax		
Current year	**-**	(122)
Impact of change in UK corporation tax rate	**-**	8
Total deferred tax charge	**-**	(114)
Income tax credit	**2**	7

Reconciliation of effective tax rate

The income tax credit is better than (2014: better than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%) applied to the profit for the year due to the following factors:

	2015 £000s	2014 £000s
Profit before tax	**734**	22,375
Profit multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	**(149)**	(4,810)
Chargeable gains exempted or covered by capital losses	**(696)**	1,135
Impact of change in UK corporation tax rate	**-**	8
Non-taxable income	**847**	3,569
Non- taxable fair value movement on total return swap (Note 14)	**-**	105
Total income tax credit	**2**	7

The income tax asset of £123,000 (2014: £121,000) represents the net amount of income tax receivable in respect of current and prior years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

9. Investments

	Note	2015 £000s	2014 £000s
Investments			
Debt securities	*(a)*	-	-
Equity securities	*(b)*	**5,648**	9,078
		5,648	9,078

(a) Debt securities

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

	2015 £000s	2014 £000s
Gross debt securities		
At 1 January	-	17,232
Exchange translation	-	(77)
Investment income accrued	-	166
Disposals	-	(17,321)
At 31 December	-	-
Net debt securities		
At 31 December	-	-

At 31 December 2014 all debt securities had been fully disposed of. Prior to disposal, all assets have been individually assessed for impairment, were not considered to be impaired and had an internal credit rating of satisfactory quality.

(b) Equity securities

The movement in equity securities can be summarised as follows:

For the year ended 31 December 2015:	**Designated at fair value through profit or loss £000s**	**Available-for sale £000s**	**Total £000s**
At 1 January 2015	**4,880**	**4,198**	**9,078**
Movements in available-for-sale reserve	**-**	**97**	**97**
Changes to fair value	**(3,527)**	**-**	**(3,527)**
At 31 December 2015	**1,353**	**4,295**	**5,648**

For the year ended 31 December 2014:	**Designated at fair value through profit or loss £000s**	**Available-for sale £000s**	**Total £000s**
At 1 January 2014	-	26,941	26,941
Exchange translation	-	(1,079)	(1,079)
Movements in available-for-sale reserve	-	(22,106)	(22,106)
Changes to fair value	(19,169)	-	(19,169)
Additions	24,049	13,593	37,642
Disposals	-	(13,151)	(13,151)
At 31 December 2014	4,880	4,198	9,078

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

10. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 £000s	2014 £000s	**2015 £000s**	2014 £000s	**2015 £000s**	2014 £000s
Other timing differences	**2**	2	**-**	-	**2**	2
Equity securities – available-for-sale	**-**	-	**(816)**	(840)	**(816)**	(840)
	2	2	**(816)**	(840)	**(814)**	(838)

Movement in temporary differences during the year

	Balance at 1 Jan 2015 £000s	**Recognised in income £000s**	**Recognised in reserves £000s**	**Balance at 31 Dec 2015 £000s**
Other timing differences	**2**	**-**	**-**	**2**
Equity securities - available-for-sale	**(840)**	**-**	**(24)**	**(816)**
	(838)	**-**	**(24)**	**(814)**

	Balance at 1 Jan 2014 £000s	Recognised in income £000s	Recognised in reserves £000s	Balance at 31 Dec 2014 £000s
Other timing differences	116	(114)	-	2
Equity securities - available-for-sale	(5,388)	-	4,548	(840)
	(5,272)	(114)	4,548	(838)

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

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020.

The Finance Bill 2016, which was substantively enacted on 6 September 2016, further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

Deferred tax assets of £nil (2014: £3,948,000) have not been recognised in respect of unrealised capital losses carried forward as there are no predicted future capital profits. Once crystallised on disposal, capital losses can be carried forward indefinitely.

11. Cash and cash equivalents

	2015 £000s	2014 £000s
Bank balances	**1,794**	1,811

12. Other debtors

	2015 £000s	2014 £000s
Accrued investment income	**747**	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

13. Capital and reserves

Capital risk management
The distributable reserves of the Company are managed in accordance with 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.

Issued capital

	Ordinary shares 2015 £000s	Ordinary shares 2014 £000s
In issue at 31 December	**1**	1

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 reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised through disposal or impaired through the Income Statement.

Capital reserve
During 2011 and 2012 the Company's intermediary parent company, Bank of Scotland plc, agreed to unconditionally and irrevocably release the Company from its obligations to repay an element of the bank overdraft position held by the Company. This has been recognised as a capital contribution in the capital reserve and represents a realised profit for distributable reserves purposes. The capital reserve at the year end totalled £117,392,000 (2014: £117,392,000).

14. Financial liabilities held at fair value through profit or loss

Financial liabilities held at fair value through profit or loss represent amounts owed through a Total Return Swap ('TRS').

	2015 £000s	2014 £000s
Financial liabilities held at fair value through profit or loss	**1,353**	4,880

The movement in financial liabilities held at fair value through profit or loss can be summarised as follows:

	2015 £000s	2014 £000s
At 1 January	**4,880**	38,647
Movement in the underlying equity securities	**276**	(3,030)
Accrued interest on the underlying debt securities	**-**	166
Redemption	**(3,438)**	(29,437)
Exchange translation	**(365)**	(1,466)
	1,353	4,880

During 2013, the Company entered into a TRS in relation to equity and debt securities ('the assets'), which remain on the Balance Sheet as at 31 December 2015. The TRS resulted in the recognition of a financial liability held at fair value on the Balance Sheet. The assets remain on the Balance Sheet as the Company retains the right to dispose of the asset (included in Note 9).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

15. Trade and other payables	**2015**	2014
	£000s	£000s
Trade creditors	-	5

16. Financial instruments

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

Credit risk
Credit risk is the risk of financial loss from 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.

		2015	2014
	Note	**£000s**	£000s
On Balance Sheet:			
Cash and cash equivalents	*11*	**1,794**	1,811
		1,794	1,811

Cash and cash equivalents representing inter-company balances within the Group and have an internal *credit rating of better than satisfactory.*

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)

At the reporting date, the Company's exposure to market risk arose principally from foreign exchange and equity risk.

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

The Company is no longer exposed to interest bearing instruments and as such has no exposure to Interest rate risk.

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 the Euro. The Company's exposure to the Euro is through a fair value through profit and loss investment linked to an equivalent fair value through profit and loss liability. The Company therefore has no profit or loss exposure to movements in the Euro exchange rate.

Equity risk
Equity risk exists from the Company's exposure to unlisted equity securities. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is continually monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is provided in Note 17 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

16. Financial Instruments (continued)

Equity risk (continued)

At the reporting date the carrying value of equity securities amounted to £5,648,000 (2014: £9,078,000). For investments carried at fair value through profit or loss changes in fair value would have a direct impact on profit before tax (PBT) whereas unrealised gains/losses arising from changes in fair value of available-for-sale investments will be taken to other comprehensive income through the available-for-sale (AFS) reserve, except for impairment losses which are recognised immediately in the Income Statement.

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 securities as at the Balance Sheet date.

	2015 PBT £000s	**2015 AFS reserve £000s**	2014 PBT £000s	2014 AFS reserve £000s
Unlisted equity securities	**135**	**430**	488	420

The investment sectors have concentrations around Financial Services 76% (2014: 48%) and Manufacturing 24% (2014: 52%). Geographic exposure is within the UK 76% (2014: 48%) and Europe 24% (2014: 52%).

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 Group 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 2015	**Up to 1 mth £000s**	**1-3 mths £000s**	**3-12 mths £000s**	**+5yrs £000s**	**Total £000s**
Financial liabilities held at fair value through profit or loss	-	-	-	**1,353**	**1,353**
Total liabilities	-	-	-	**1,353**	**1,353**

As at 31 December 2014	Up to 1 mth £000s	1-3 mths £000s	3-12 mths £000s	+5yrs £000s	Total £000s
Financial liabilities held at fair value through profit or loss	-	-	-	4,880	4,880
Trade and other payables	5	-	-	-	5
Total liabilities	5	-	-	4,880	4,885

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 2015

17. Fair values

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

	Note	Carrying amount 2015 £000s	Fair value 2015 £000s	Carrying amount 2014 £000s	Fair value 2014 £000s
Equity securities - available-for-sale	9	4,295	4,295	4,198	4,198
Financial assets held at fair value through profit or loss	9	1,353	1,353	4,880	4,880
Bank balances	11	1,794	1,794	1,811	1,811
Financial liabilities held at fair value through profit or loss	14	(1,353)	(1,353)	(4,880)	(4,880)
Other debtors	12	747	747	-	-
Trade and other payables	15	-	-	(5)	(5)
		6,836	6,836	6,004	6,004
Unrecognised gains/(losses)			-		-

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

- **Equity securities**
  Fair value of unlisted equity securities is calculated in accordance with the Group valuation policy and with the International Private Equity Venture Capital guidelines. For fund investments, the capital account value per the most recent fund manager report is taken and then adjusted if necessary, to align 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 maintainable earnings

- **Bank balances**
  The fair value of bank balances is considered to be equal to their carrying value.

- **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.

Financial instruments carried at fair value
The table 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 At 31 December 2015	Note	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Available-for-sale financial assets	9	-	-	4,295	4,295
Financial assets held at fair value through profit or loss	9	-	-	1,353	1,353
Financial liabilities held at fair value through profit or loss	14	-	-	(1,353)	(1,353)
Total net financial liabilities		-	-	4,295	4,295

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

17. Fair values (continued)

Valuation hierarchy At 31 December 2014	Note	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Available-for-sale financial assets	9	-	-	4,198	4,198
Financial assets held at fair value through profit or loss	9	-	-	4,880	4,880
Financial liabilities held at fair value through profit or loss	14	-	-	(4,880)	(4,880)
Total net financial assets		-	-	4,198	4,198

The valuation of financial instruments has 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 securities, 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 following table shows a reconciliation from the opening balances to the closing balances for fair value movements in Level 3 of the fair value hierarchy ("FVTPL" = fair value through profit or loss).

	Available-for-sale 2015 £000s	**Financial assets held at FVTPL 2015 £000s**	**Total financial assets 2015 £000s**	**Financial liabilities held at FVTPL 2015 £000s**
At 1 January 2015	**4,198**	**4,880**	**9,078**	**(4,880)**
Gains/(Losses) recognised in:				
- Income Statement	**-**	**(3,527)**	**(3,527)**	**89**
- Other comprehensive income	**97**	**-**	**97**	**-**
Disposals	**-**	**-**	**-**	**3,438**
At 31 December 2015	**4,295**	**1,353**	**5,648**	**(1,353)**
For assets held at the end of the reporting year:				
Total gains / (losses) included in Income Statement for the year	**-**	**(3,527)**	**(3,527)**	**89**
Total gains included in other comprehensive income for the year	**97**	**-**	**97**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

17. Fair values (continued)

	Available-for-sale 2014 £000s	Financial assets held at FVTPL 2014 £000s	Total financial assets 2014 £000s	Financial liabilities held at FVTPL 2014 £000s
At 1 January 2014	26,941	-	26,941	(38,647)
Gains/(Losses) recognised in:				
- Income Statement	(442)	(19,169)	(19,611)	4,330
- Other comprehensive income	(22,743)	-	(22,743)	-
Additions	13,593	24,049	37,642	-
Disposals	(13,151)	-	(13,151)	29,437
At 31 December 2014	4,198	4,880	9,078	(4,880)
For assets held at the end of the reporting year:				
Total gains / (losses) included in Income Statement for the year	(442)	(19,169)	(19,611)	4,330
Total losses included in other comprehensive income for the year	(22,743)	-	(22,743)	-

Although the Company believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. 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 2015			As at 31 December 2014		
	Fair value £000s	**Favourable changes £000s**	**Unfavourable changes £000s**	Fair value £000s	Favourable changes £000s	Unfavourable changes £000s
Available-for-sale financial assets						
Equity investments	**4,295**	**-**	**-**	4,198	-	-
Financial assets held at fair value through profit or loss						
Equity investments	**1,353**	**271**	**(271)**	4,880	244	(244)
Financial liabilities held at fair value through profit or loss						
FVTPL liability	**(1,353)**	**(271)**	**271**	(4,880)	(244)	244
Net financial assets	**4,295**	**-**	**-**	4,198	-	-

The favourable and unfavourable effects of using reasonably possible alternative assumptions for investment securities have been calculated by recalibrating the valuation models. The exception to this is where a sales price has been agreed, this is assumed to be the fair value with no possible alternative assumptions being applicable.

A valuation method is selected for each of the equity investments carried at fair value, in accordance with the valuation policy. This allows for an earnings multiple approach, net asset value approach or discounted cash flow approach to be taken; dependent on the sector and circumstances of each investee company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

17. 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 fair value through profit or loss financial assets or available-for-sale financial assets. These investments are valued using different techniques as a result of the variety of investments across the portfolio in accordance with the LBG Group's valuation policy and are calculated using International Private Equity and Venture Capital Guidelines.

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

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

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

18. Related parties

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

Related party transactions with Bank of Scotland plc during the year are disclosed in the table below:

Nature of transaction	**Note**	**Balance at 31 December 2015 £000s**	Balance at 31 December 2014 £000s	**Income / (expense) included in Income Statement for the year ended 31 December 2015 £000s**	Income / (expense) included in Income Statement for the year ended 31 December 2014 £000s	**Disclosure in financial statements**
Capital contribution from intermediary parent	13	**(117,392)**	(117,392)	-	-	Capital and reserves
Bank balances	11	**1,794**	1,811	-	-	Cash and cash equivalents
Interest income	5	-	-	-	11	Finance income

During the year the Company paid a dividend of £nil (2014: £1,900,000) to its immediate parent Uberior Fund Investments Limited.

The income tax receivable by the Company relates to group relief receivable from fellow subsidiary undertakings. The outstanding tax receivable at the end of the year was £123,000 (2014: £121,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

19. Parent undertakings

The Company's immediate parent company is Uberior Fund Investments Limited.

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

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and accounts of both companies may be downloaded via www.lloydsbankinggroup.com.