

**UBERIOR CO-INVESTMENTS LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**MEMBER OF LLOYDS BANKING GROUP**

Company Number: SC286372



**Director**

N S Burnett

A C Bone

**Secretary**

D D Hennessey

**Registered office**

Level 1

Citymark

150 Fountainbridge

Edinburgh

EH3 9PE

**Independent Auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

**Bankers**

Bank of Scotland plc

Head Office

The Mound

Edinburgh

EH1 1YZ

**STRATEGIC REPORT**  
**For the year ended 31 December 2016**

The Directors submit their Strategic Report on Uberior Co-Investments Limited ("the Company") for the year ended 31 December 2016.

**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 disposed of a number of investments at book value. In the prior year, the company did not dispose of any investments. 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 2016. The TRS is held on the Balance Sheet as a financial liability at a fair value of £1,570,551 (2015: £1,353,000), and includes a credit of £336,000 (2015: £89,000 debit) to the Income Statement relating to an increase (2015: decrease) in value of the liability during the year. Further disclosure in relation to the TRS is given in Note 13.

The Balance Sheet shows a net asset position of £6,874,000 (2015: £6,145,000). The movement is attributable to the total comprehensive income recognised for the year.

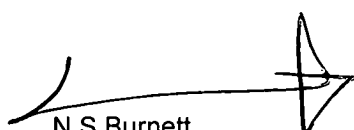
The Company's actions are governed by the Codes of Business Responsibility of the ultimate parent undertaking, Lloyds Banking Group plc, which set out clear guidelines for responsible behaviour across the business, including human rights, social, ethical and environmental responsibilities. These guidelines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

The Company has no employees (2015: 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 15 to the financial statements.

On behalf of the Board,



N S Burnett  
Director

14/9/17

Company number: SC286372

**DIRECTORS' REPORT****For the year ended 31 December 2016****Directors**

The Directors, as listed on page 2, submit their report and audited financial statements of the Company for the year ended 31 December 2016.

**Incorporation**

The Company was incorporated in Scotland on 20 June 2005.

**Results and dividends**

The profit after tax for the year is £4,209,000 (2015: £736,000 profit). No dividends were declared during the year (2015: £nil)

**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:

<b>Director</b>	<b>Date of appointment</b>	<b>Date of resignation</b>
A C Bone	23 November 2016	-
F J Gibson	-	23 November 2016
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**

Lloyds Banking Group plc has granted to the Directors of the Company, (including former Directors of the Company who resigned during the year), a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements (or from the date of appointment in respect of the 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 the Directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

**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 2016****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

14/9/17

Company number: SC286372

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

## **Report on the financial statements**

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### **Our opinion**

In our opinion, Uberior Co-Investments Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.
- 

### **What we have audited**

The financial statements, included within the Annual Report and financial statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in shareholders equity for the year then ended;
- 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 the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

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.

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## **Opinions on other matters prescribed by the Companies Act 2006**

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In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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

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### **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.

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### **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.

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## Responsibilities for the financial statements and the audit

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### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("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.

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### What an audit of financial statements involves

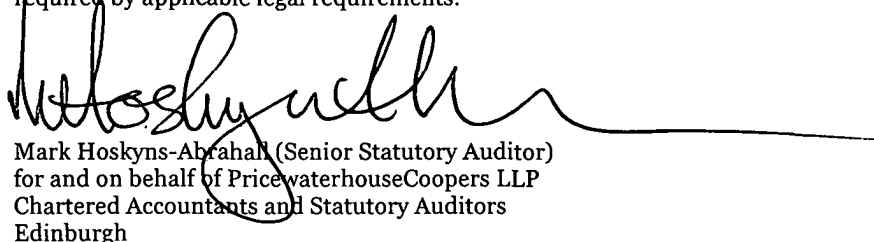
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Mark Hoskyns-Abraham (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh

18 September 2017

**INCOME STATEMENT****For the year ended 31 December 2016**

	<b>Note</b>	<b>2016 £000s</b>	<b>2015 £000s</b>
Investment income	4	4,219	4,185
Change in fair value of financial assets and liabilities	4	(8)	(3,438)
Finance income	5	2	-
<b>Total income</b>		<b>4,213</b>	<b>747</b>
Other expenses	6	(1)	(13)
<b>Profit before tax</b>		<b>4,212</b>	<b>734</b>
Income tax (charge)/credit	7	(2)	2
<b>Profit after tax for the year</b>		<b>4,210</b>	<b>736</b>
<b>Attributable to:</b>			
Owner		4,210	736
<b>Profit for the year</b>		<b>4,210</b>	<b>736</b>

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 2016**

	<b>Note</b>	<b>2016 £000s</b>	<b>2015 £000s</b>
<b>Profit for the year</b>		<b>4,210</b>	<b>736</b>
<b>Other comprehensive (loss)/profit:</b>			
Movements in available-for-sale financial assets:			
- changes in fair value		<b>(4,295)</b>	<b>97</b>
	<b>8</b>	<b>(4,295)</b>	<b>97</b>
Movements in deferred tax	<b>9</b>	<b>815</b>	<b>24</b>
<b>Other comprehensive (loss)/profit for the year, net of tax</b>		<b>(3,480)</b>	<b>121</b>
<b>Total comprehensive profit for the year</b>		<b>730</b>	<b>857</b>
<b>Attributable to:</b>			
Owners		<b>730</b>	<b>857</b>
<b>Total comprehensive profit for the year</b>		<b>730</b>	<b>857</b>


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

**BALANCE SHEET**  
**As at 31 December 2016**

	Note	2016 £000s	2015 £000s
<b>Assets</b>			
Investments	8	1,571	5,648
Cash and cash equivalents	10	6,875	1,794
Other debtors	11	-	747
Income tax asset	7	-	123
<b>Total assets</b>		<b>8,446</b>	<b>8,312</b>
<b>Equity</b>			
Issued capital	12	1	1
Available-for-sale reserve		-	3,480
Capital reserve	12	117,392	117,392
Accumulated losses		(110,518)	(114,728)
<b>Total equity</b>		<b>6,875</b>	<b>6,145</b>
<b>Liabilities</b>			
Deferred tax liability	9	-	814
Financial liabilities held at fair value through profit or loss	13	1,571	1,353
<b>Total liabilities</b>		<b>1,571</b>	<b>2,167</b>
<b>Total equity and liabilities</b>		<b>8,446</b>	<b>8,312</b>

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**

14/9/17

Company Number: SC286372

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2016**

	Issued capital £000s	Available For-Sale Reserve £000s	Capital reserve £000s	Accumulated losses £000s	Total equity £000s
Balance at 1 January 2015	1	3,359	117,392	(115,464)	5,288
<b>Comprehensive income</b>					
Profit for the year	-	-	-	736	736
<b>Other comprehensive income</b>					
Available-for-sale financial assets	-	121	-	-	121
Total comprehensive income	-	121	-	736	857
<b>Balance 31 December 2015 and at 1 January 2016</b>	<b>1</b>	<b>3,480</b>	<b>117,392</b>	<b>(114,728)</b>	<b>6,145</b>
<b>Comprehensive income/(loss)</b>					
Profit for the year	-	-	-	4,210	4,210
<b>Other comprehensive income/(loss)</b>					
Available-for-sale financial assets	-	(3,480)	-	-	(3,480)
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>(3,480)</b>	<b>-</b>	<b>4,210</b>	<b>730</b>
<b>Balance at 31 December 2016</b>	<b>1</b>	<b>-</b>	<b>117,392</b>	<b>(110,518)</b>	<b>6,875</b>

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 2016**

	Note	2016 £000s	2015 £000s
<b>Cash flows from operating activities</b>			
Profit before tax		4,210	734
Adjustments for non-cash transactions:			
Decrease/(increase) in trade and other payables		-	(4)
Decrease/(increase) of accrued investment income		747	(747)
In specie investment income		(4,093)	-
Interest income	5	(2)	-
Changes in fair value of financial assets and liabilities	4	8	3,438
<b>Cash generated from operations</b>		<b>870</b>	<b>3,421</b>
Interest received		2	-
Amounts received in respect of income taxes		124	-
<b>Net cash generated from operating activities</b>		<b>996</b>	<b>3,421</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		4,203	-
<b>Net cash generated from investing activities</b>		<b>4,203</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Redemption of financial liabilities held at fair value through profit or loss	13	(118)	(3,438)
<b>Net cash used in financing activities</b>		<b>(118)</b>	<b>(3,438)</b>
Net increase/(decrease) in cash and cash equivalents		5,081	(17)
Cash and cash equivalents at 1 January		1,794	1,811
Effect of exchange rate fluctuations on cash held		-	-
<b>Cash and cash equivalents at 31 December</b>	10	<b>6,875</b>	<b>1,794</b>

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 2016****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 14<sup>th</sup> September 2017

**(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 2016 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 2016 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 2016**

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

**(d) Future accounting developments (continued)**

Pronouncement	Nature of change	IASB effective date
IFRS 9 <i>Financial Instruments</i> <sup>1</sup>	<p>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.</p> <p>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.</p> <p>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.</p>	Annual periods beginning on or after 1 January 2018.
IFRS 15 <i>Revenue from Contracts with Customers</i> <sup>1</sup>	<p>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.</p>	Annual periods beginning on or after 1 January 2018.

<sup>1</sup> 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 2016****1. Significant accounting policies (continued)****(f) 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.

**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 2016****1. Significant accounting policies (continued)****(f) 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.

**(g) 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.

**(h) 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.

**(i) 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.

**(j) 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.

**(k) 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.

**(l) 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 2016****1. Significant accounting policies (continued)****(l) 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).

**(m) Other expenses**

Other expenses comprise of management fees.

**(n) 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 2016****1. Significant accounting policies (continued)****(o) 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.

**(p) Offsetting Financial Instruments**

Financial assets and liabilities are offset and the new 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 2016****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:

- 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 2016**

**2. Critical accounting estimates and judgements (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 2016 the Company classified £1,571,000 of financial assets (2015: £5,648,000) as Level 3 financial instruments.

The largest asset class classified as Level 3 is the Company's fair value through profit or loss (2015: Available-for-sale assets). Venture Capital investments are valued using International Private Equity and Venture Capital (IPEV) Guidelines which require significant management judgement in determining appropriate earnings multiples to be applied in determining fair value. Unlisted equity investments are valued using a number of different techniques which require management to select the most appropriate assumptions, including earnings multiples, valuations to net assets, and estimated future cash flows.

**(c) 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.

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**

	<b>2016</b>	2015
	<b>£000s</b>	£000s
Income from equity securities – fair value through profit or loss	<b>118</b>	3,438
Income from equity securities – available-for-sale	<b>4,101</b>	747
	<b>4,219</b>	4,185
	<b>2016</b>	2015
	<b>£000s</b>	£000s
Change in fair value of financial assets	<b>328</b>	(3,527)
Change in fair value of financial liabilities	<b>(336)</b>	89
	<b>(8)</b>	(3,438)

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2016**

**5. Finance income**

	<b>2016</b> <b>£000s</b>	2015 £000s
Interest received on term deposits	<u>2</u>	-

**6. Other expenses**

	<b>2016</b> <b>£000s</b>	2015 £000s
Management fees	<u>1</u>	13

For the year ended 31 December 2016 and 31 December 2015, the audit fee has been accrued and paid centrally by the Company's intermediate parent, Bank of Scotland plc, with no recharge to the Company.

The Company has no employees (2015: 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. Income tax (charge)/credit**

	<b>2016</b> <b>£000s</b>	2015 £000s
<b>Current tax</b>		
Current tax on profit for the year	-	2
<b>Total current tax</b>	<u>-</u>	<u>2</u>
<b>Deferred tax</b>		
Current year	(2)	-
<b>Total deferred tax charge</b>	<u>(2)</u>	<u>-</u>
<b>Income tax credit</b>	<u>(2)</u>	<u>2</u>

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

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

**Reconciliation of effective tax rate**

The income tax credit is better than (2015: better than) the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%) applied to the profit for the year due to the following factors:

	<b>2016</b> <b>£000s</b>	2015 £000s
Profit before tax	<u>4,210</u>	734
Profit multiplied by the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)	(842)	(149)
Chargeable gains exempted or covered by capital losses	(2)	(696)
Non-taxable income	842	847
<b>Total income tax (charge)/credit</b>	<u>(2)</u>	<u>2</u>

The income tax asset of £nil (2015: £123,000) 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 2016**

**8. Investments**

	<b>Note</b>	<b>2016 £000s</b>	<b>2015 £000s</b>
<b>Investments</b>			
Equity securities	(a)	1,571	5,648
		<u>1,571</u>	<u>5,648</u>

**(a) Equity securities**

The movement in equity securities can be summarised as follows:

	<b>Designated at fair value through profit or loss £000s</b>	<b>Available-for sale £000s</b>	<b>Total £000s</b>
<b>For the year ended 31 December 2016:</b>			
At 1 January 2016	1,353	4,295	5,648
Movements in available-for-sale reserve	-	(4,295)	(4,295)
Changes to fair value	328	-	328
Additions	4,093	-	4,093
Disposal	(4,203)	-	(4,203)
<b>At 31 December 2016</b>	<b>1,571</b>	<b>-</b>	<b>1,571</b>

	<b>Designated at fair value through profit or loss £000s</b>	<b>Available-for sale £000s</b>	<b>Total £000s</b>
<b>For the year ended 31 December 2015:</b>			
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)
<b>At 31 December 2015</b>	<b>1,353</b>	<b>4,295</b>	<b>5,648</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2016**

**9. Deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Other timing differences	-	2	-	-	-	2
Equity securities – available-for-sale	-	-	-	(816)	-	(816)
	-	2	-	(816)	-	(814)

**Movement in temporary differences during the year**

	<b>Balance at 1 Jan 2016</b>	<b>Recognised in income</b>	<b>Recognised in reserves</b>	<b>Balance at 31 Dec 2016</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Other timing differences	2	(2)	-	-
Equity securities - available-for-sale	(816)	-	816	-
	(814)	(2)	816	-

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

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 liability of £nil (2015: £nil) 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.

**10. Cash and cash equivalents**

	<b>2016</b>	<b>2015</b>
	<b>£000s</b>	<b>£000s</b>
Bank balances	6,875	1,794

**11. Other debtors**

	<b>2016</b>	<b>2015</b>
	<b>£000s</b>	<b>£000s</b>
Accrued investment income	-	747

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2016**

**12. 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**

	<b>Ordinary shares 2016 £000s</b>	Ordinary shares 2015 £000s
In issue at 31 December	<u>1</u>	<u>1</u>

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 (2015: £117,392,000).

**13. 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').

	<b>2016 £000s</b>	2015 £000s
Financial liabilities held at fair value through profit or loss	<u>1,571</u>	<u>1,353</u>

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

	<b>2016 £000s</b>	2015 £000s
At 1 January	<b>1,353</b>	4,880
Movement in the underlying equity securities	<b>148</b>	276
Redemption	<b>(118)</b>	(3,438)
Exchange translation	<b>188</b>	(365)
<b>At 31 December</b>	<u><b>1,571</b></u>	<u>1,353</u>

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 2016. 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 8).



**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2016**

**14. 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.

	Note	2016 £000s	2015 £000s
<b>On Balance Sheet:</b>			
Cash and cash equivalents	10	6,875	1,794
		<b>6,875</b>	<b>1,794</b>

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 16 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2016****14. Financial Instruments (continued)****Equity risk (continued)**

At the reporting date the carrying value of equity securities amounted to £1,571,000 (2015: £5,648,000). 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.

	<b>2016 PBT £000s</b>	<b>2016 AFS reserve £000s</b>	<b>2015 PBT £000s</b>	<b>2015 AFS reserve £000s</b>
Unlisted equity securities	<b>157</b>	<b>-</b>	<b>135</b>	<b>430</b>

The investment sectors have concentrations around Manufacturing 100% (2015: 24%) and Financial Services 0% (2015: 76%). Geographic exposure is within Europe 100% (2015: 24%) and UK 0% (2015: 76%).

**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.

<b>As at 31 December 2016</b>	<b>Up to 1 mth £000s</b>	<b>1-3 mths £000s</b>	<b>3-12 mths £000s</b>	<b>+5yrs £000s</b>	<b>Total £000s</b>
Financial liabilities held at fair value through profit or loss	-	-	-	<b>1,571</b>	<b>1,571</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,571</b>	<b>1,571</b>
<b>As at 31 December 2015</b>	<b>Up to 1 mth £000s</b>	<b>1-3 mths £000s</b>	<b>3-12 mths £000s</b>	<b>+5yrs £000s</b>	<b>Total £000s</b>
Financial liabilities held at fair value through profit or loss	-	-	-	1,353	1,353
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,353</b>	<b>1,353</b>

**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 2016**

**15. Fair values**

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

	Note	Carrying amount 2016 £000s	Fair value 2016 £000s	Carrying amount 2015 £000s	Fair value 2015 £000s
Equity securities - available-for-sale	8	-	-	4,295	4,295
Financial assets held at fair value through profit or loss	8	1,571	1,571	1,353	1,353
Bank balances	10	6,875	6,875	1,794	1,794
Financial liabilities held at fair value through profit or loss	13	(1,571)	(1,571)	(1,353)	(1,353)
Other debtors	11	-	-	747	747
		<b>6,875</b>	<b>6,875</b>	<b>6,836</b>	<b>6,836</b>
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 2016	Note	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Available-for-sale financial assets	8	-	-	-	-
Financial assets held at fair value through profit or loss	8	-	-	1,571	1,571
Financial liabilities held at fair value through profit or loss	13	-	-	(1,571)	(1,571)
Total net financial liabilities		-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2016**

**15. Fair values (continued)**

Valuation hierarchy	Note	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
At 31 December 2015					
Available-for-sale financial assets	8	-	-	4,295	4,295
Financial assets held at fair value through profit or loss	8	-	-	1,353	1,353
Financial liabilities held at fair value through profit or loss	13	-	-	(1,353)	(1,353)
Total net financial assets		-	-	4,295	4,295

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 2016 £000s	Financial assets held at FVTPL 2016 £000s	Total financial assets 2016 £000s	Financial liabilities held at FVTPL 2016 £000s
At 1 January 2016	4,295	1,353	5,648	(1,353)
Gains/(Losses) recognised in:				
Income Statement	-	328	328	(336)
Other comprehensive income	(4,295)	-	(4,295)	-
Additions	-	4,093	4,093	-
Disposals	-	(4,203)	(4,203)	118
At 31 December 2016	-	1,571	1,571	(1,571)
For assets held at the end of the reporting year:				
Total gains/(losses) included in Income Statement for the year	-	328	328	(336)
Total losses included in other comprehensive expense for the year	(4,295)	-	(4,295)	-

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2016**

**15. Fair values (continued)**

	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 income included in other comprehensive income for the year	97	-	97	-

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 2016			As at 31 December 2015		
	Fair value £000s	Favourable changes £000s	Unfavourable changes £000s	Fair value £000s	Favourable changes £000s	Unfavourable changes £000s
<b>Available-for-sale financial assets</b>						
Equity investments	-	-	-	4,295	-	-
<b>Financial assets held at fair value through profit or loss</b>						
Equity investments	1,571	314	(314)	1,353	271	(271)
<b>Financial liabilities held at fair value through profit or loss</b>						
FVTPL liability	(1,571)	(314)	314	(1,353)	(271)	271
<b>Net financial assets</b>	-	-	-	4,295	-	-

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 2016**

**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 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.

**16. 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 2016 £000s	Balance at 31 December 2015 £000s	Income / (expense) included in Income Statement for the year ended 31 December 2016 £000s	Income / (expense) included in Income Statement for the year ended 31 December 2015 £000s	Disclosure in financial statements
Capital contribution from intermediary parent	12	(117,392)	(117,392)	-	-	Capital and reserves
Bank balances	10	6,875	1,794	-	-	Cash and cash equivalents
Interest income	5	-	-	2	-	Finance income

During the year the Company paid a dividend of £nil (2015: £nil) 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 £nil (2015: £123,000).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2016****16. Related parties (continued)**

The registered offices of related parties are noted below:

<u>Related party</u>	<u>Registered address</u>
Bank of Scotland Plc	The Mound, Edinburgh, EH1 1YZ
Uberior Fund Investments Ltd	Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE

**17. 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](http://www.lloydsbankinggroup.com).

**18. Post balance sheet events**

Post year end the company disposed of FVTPL investments with a year-end carry value of £1,571k. The only FV movements between 31 December and date of disposal related to FX. All proceeds from the sale were immediately transferred to a 3<sup>rd</sup> party as part of a TRS (Total Return Swap) that was in place. At 31 December 2016, the TRS was held on the balance sheet as a FVTPL liability mirroring the value of the asset. When the investment was disposed, the value of the liability was reduced to Nil.