

UBERIOR CO-INVESTMENTS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

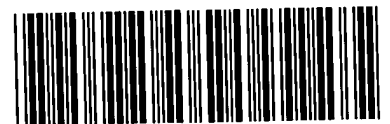
MEMBER OF LLOYDS BANKING GROUP PLC

COMPANIES HOUSE
EDINBURGH

28 SEP 2018

FRONT DESK

FRIDAY
28/09/2018



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28/09/2018
COMPANIES HOUSE

Company Number: SC286372

Director

N S Burnett

A Hulme

Secretary

D D Hennessey

Registered office

The Mound

Edinburgh

EH1 1YZ

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

Bankers

Bank of Scotland plc

Head Office

The Mound

Edinburgh

EH1 1YZ

DIRECTORS' REPORT**For the year ended 31 December 2017****Directors**

The Directors, as listed on page 2, submit their report and audited financial statements of the Company for the year ended 31 December 2017.

The Company qualifies as a small company in accordance with Sections 381-382 of the Companies Act 2006 ("the Act") and the Directors' Report has therefore been prepared taking into consideration the provisions of Part 15 of the Act.

Incorporation

The Company was incorporated in Scotland on 20 June 2005.

Results and dividends

The profit before tax for the year is £nil (2016: £4,212,000). A £6,000,000 dividend was declared and paid during the year (2016: £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 as stated on page 2. Dates of resignations and appointments during the year, or subsequent to the year end, were as follows:

| <u>Director</u> | <u>Date of Appointment</u> | <u>Date of Resignation</u> |
|-----------------|----------------------------|----------------------------|
| A C Bone | - | 22 February 2018 |
| A Hulme | 22 February 2018 | - |

No other Directors served throughout the year.

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

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 2017**Statement of Directors' responsibilities**

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

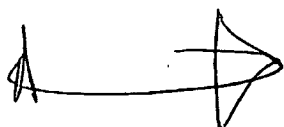
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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

Date: 26 September 2018

Company number: SC286372

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

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

Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



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

INCOME STATEMENT**For the year ended 31 December 2017**

| | Note | 2017 £000 | 2016 £000 |
|--|-------------|----------------------|----------------------|
| Investment income | 4 | - | 4,219 |
| Change in fair value of financial assets and liabilities | 4 | - | (8) |
| Finance income | 5 | - | 2 |
| Total income | | - | 4,213 |
| Other expenses | 6 | - | (1) |
| Profit before tax | | - | 4,212 |
| Income tax credit/(charge) | 7 | - | (2) |
| Profit after tax for the year | | - | 4,210 |
| Attributable to: | | | |
| Owner | | - | 4,210 |
| Profit for the year | | - | 4,210 |

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Note | 2017 £000 | 2016 £000 |
|--|------|--------------|--------------|
| Profit for the year | | - | 4,210 |
| Other comprehensive profit: | | | |
| Movements in available-for-sale financial assets: | | | |
| - changes in fair value | 8 | - | (4,295) |
| | | - | (4,295) |
| Movements in deferred tax | 9 | - | 816 |
| Other comprehensive profit/ (loss) for the year, net of tax | | - | (3,480) |
| Total comprehensive profit for the year | | - | 731 |
| Attributable to: | | | |
| Owners | | - | 731 |
| Total comprehensive profit for the year | | - | 731 |

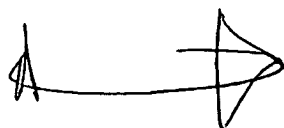
The notes on pages 12 to 29 are an integral part of these financial statements.

BALANCE SHEET**As at 31 December 2017**

| | Note | 2017 £000 | 2016 £000 |
|---|-------------|----------------------|----------------------|
| Assets | | | |
| Investments | 8 | - | 1,571 |
| Cash and cash equivalents | 10 | 875 | 6,875 |
| Income tax asset | 7 | - | - |
| Total assets | | 875 | 8,446 |
| Equity | | | |
| Issued capital | 12 | 1 | 1 |
| Capital reserve | 12 | 111,392 | 117,392 |
| Accumulated losses | | (110,518) | (110,518) |
| Total equity | | 875 | 6,875 |
| Liabilities | | | |
| Financial liabilities held at fair value through profit or loss | 13 | - | 1,571 |
| Total liabilities | | - | 1,571 |
| Total equity and liabilities | | 875 | 8,446 |

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

The financial statements on pages 7 to 29 were approved by the Board and signed on its behalf by:



N S Burnett
Director

Date: 26 September 2018

Company Number: SC286372

STATEMENT OF CHANGES IN EQUITY

| | Share capital £000 | Available For-Sale Reserve £000 | Capital reserve £000 | Accumulated losses £000 | Total equity £000 |
|-------------------------------------|--------------------------|--|----------------------------|-------------------------------|-------------------------|
| Balance at 1 January 2016 | 1 | 3,480 | 117,392 | (114,728) | 6,145 |
| Comprehensive income | | | | | |
| Profit for the year | - | - | - | 4,210 | 4,210 |
| Other comprehensive income | | | | | |
| Available-for-sale financial assets | - | (3,480) | - | - | (3,480) |
| Total comprehensive income/(loss) | - | (3,480) | - | 4,210 | 730 |
| Balance 31 December 2016 | 1 | - | 117,392 | (110,518) | 6,875 |
| Comprehensive income | | | | | |
| Profit for the year | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | - |
| Dividends paid | | - | (6,000) | - | (6,000) |
| Balance at 31 December 2017 | 1 | - | 111,392 | (110,518) | 875 |

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

STATEMENT OF CASH FLOWS**For the year ended 31 December 2017**

| | Note | 2017 £000 | 2016 £000 |
|---|------|----------------|--------------|
| Cash flows from operating activities | | | |
| Profit before tax | | - | 4,212 |
| Adjustments for non-cash transactions: | | | |
| Decrease of accrued investment income | | - | 747 |
| In specie investment income | | - | (4,093) |
| Interest income | 5 | - | (2) |
| Changes in fair value of financial assets and liabilities | 4 | - | 8 |
| Cash generated from operations | | - | 870 |
| Interest received | | - | 2 |
| Amounts received in respect of income taxes | | - | 124 |
| Net cash generated from operating activities | | - | 996 |
| Cash flows from investing activities | | | |
| Proceeds from sale of investments | | 2,845 | 4,201 |
| Net cash generated from investing activities | | 2,845 | 4,201 |
| Cash flows from financing activities | | | |
| Redemption of financial liabilities held at fair value through profit or loss | 13 | (2,845) | (118) |
| Dividends paid | 11 | (6,000) | - |
| Net cash used in financing activities | | (8,845) | (118) |
| Net (decrease)/increase in cash and cash equivalents | | (6,000) | 5,081 |
| Cash and cash equivalents at 1 January | | 6,875 | 1,794 |
| Cash and cash equivalents at 31 December | 10 | 875 | 6,875 |

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017**1. Significant accounting policies**

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 26th September 2018

(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 2017 statutory financial statements set out on pages 7 to 29 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. Consequently, the financial statements comply with IFRS.

The 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 are not applicable for the year ending 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.

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

1. Significant accounting policies (continued)

(d) Future accounting developments (continued)

| Pronouncement | Nature of change | IASB effective date |
|-------------------------------------|---|--|
| <i>IFRS 9 Financial Instruments</i> | IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The Company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods. | Annual periods beginning on or after 1 January 2018. |

Classification and measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.

The full impact of this pronouncement is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

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

1. Significant accounting policies (continued)

| | | |
|--|---|--|
| IFRS 15 Revenue from Contracts with Customers | The Company's current accounting policy is materially consistent with the requirements of IFRS 15 and, accordingly, no transition adjustments are required. | Annual periods beginning on or after 1 January 2018. |
|--|---|--|

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017**1. Significant accounting policies (continued)**
(f) Financial assets and liabilities (continued)**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.

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 2017**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 2017**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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017**2. Critical accounting estimates and judgements****(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 2017

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 2017 the Company classified £nil of financial assets (2016: £1,571,000) as Level 3 financial instruments.

There are no remaining assets classified as Level 3 in the Company as at 31 December 2017 (2016: FVTPL assets were the largest class). 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.

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

| | 2017 | 2016 |
|---|-------------|--------------|
| | £000 | £000 |
| Income from equity securities – fair value through profit or loss | - | 118 |
| Income from equity securities – available-for-sale | - | 4,101 |
| | - | 4,219 |
| | 2017 | 2016 |
| | £000 | £000 |
| Change in fair value of financial assets | 1,274 | 328 |
| Change in fair value of financial liabilities | (1,274) | (336) |
| | - | (8) |

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

| | | |
|------------------------------------|-------------|-------------|
| 5. Finance income | 2017 | 2016 |
| | £000 | £000 |
| Interest received on term deposits | - | 2 |
| 6. Other expenses | 2017 | 2016 |
| | £000 | £000 |
| Management fees | - | 1 |

For the year ended 31 December 2017 and 31 December 2016, 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 (2016: nil). 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 credit/(charge) | 2017 | 2016 |
| | £000 | £000 |
| Current tax | | |
| Current tax on profit for the year | - | - |
| Total current tax | - | - |
| Deferred tax | | |
| Current year | - | (2) |
| Total deferred tax charge | - | (2) |
| Income tax credit | - | (2) |

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

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

Reconciliation of effective tax rate

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

| | | |
|--|-------------|-------------|
| | 2017 | 2016 |
| | £000 | £000 |
| Profit before tax | - | 4,210 |
| Profit multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%) | - | (842) |
| Chargeable gains exempted or covered by capital losses | - | (2) |
| Non-taxable income | - | 842 |
| Total income tax (charge)/credit | - | (2) |

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

8. Investments

| | Note | 2017 £000 | 2016 £000 |
|--------------------|------|--------------|--------------|
| Investments | | | |
| Equity securities | (a) | - | 1,571 |
| | | - | 1,571 |

(a) Equity securities

The movement in equity securities can be summarised as follows:

| | Designated at fair value through profit or loss £000 | Available-for sale £000 | Total £000 |
|---|--|-------------------------------|---------------|
| For the year ended 31 December 2017: | | | |
| At 1 January 2017 | 1,571 | - | 1,571 |
| Movements in available-for-sale reserve | - | - | - |
| Changes to fair value | 1,274 | - | 1,274 |
| Additions | - | - | - |
| Disposal | (2,845) | - | (2,845) |
| At 31 December 2017 | - | - | - |

| | Designated at fair value through profit or loss £000 | Available-for sale £000 | Total £000 |
|---|--|-------------------------------|---------------|
| For the year ended 31 December 2016: | | | |
| 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 |
| Disposals | (4,203) | - | (4,203) |
| At 31 December 2016 | 1,571 | - | 1,571 |

9. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2017 £000 | 2016 £000 | 2017 £000 | 2016 £000 | 2017 £000 | 2016 £000 |
| Other timing differences | - | - | - | - | - | - |
| Equity securities – available-for-sale | - | - | - | - | - | - |
| | - | - | - | - | - | - |

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

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

9. Deferred tax assets and liabilities (continued)

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

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

10. Cash and cash equivalents

| | 2017 £000 | 2016 £000 |
|---------------|--------------|--------------|
| Bank balances | 875 | 6,875 |

11. Dividends

| | 2017 £000 | 2016 £000 |
|-------------------------------|--------------|--------------|
| Dividends Paid | 6,000 | - |
| Ordinary Share | | |
| £6,000 (2016: £nil) per share | 6,000 | - |

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

| | Ordinary shares 2017 £000 | Ordinary shares 2016 £000 |
|-------------------------|------------------------------------|------------------------------------|
| 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 £111,392,000 (2016: £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').

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Financial liabilities held at fair value through profit or loss | - | 1,571 |

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

13. Financial liabilities held at fair value through profit or loss (continued)

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

| | 2017 | 2016 |
|--|----------|--------------|
| | £000 | £000 |
| At 1 January | 1,571 | 1,353 |
| Movement in the underlying equity securities | 1,275 | 148 |
| Redemption | (2,845) | (118) |
| Exchange translation | (1) | 188 |
| At 31 December | - | 1,571 |

During 2013, the Company entered into a TRS in relation to equity and debt securities ('the assets'), which was disposed of during the course of 2017.

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 | 2017 | 2016 |
|---------------------------|------|------------|--------------|
| | | £000 | £000 |
| On Balance Sheet: | | | |
| Cash and cash equivalents | 10 | 875 | 6,875 |
| | | 875 | 6,875 |

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.

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

14. Financial Instruments (continued)

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.

At the reporting date the carrying value of equity securities amounted to £nil (2016: £1,571,000). 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.

| | 2017 PBT £000 | 2017 AFS reserve £000 | 2016 PBT £000 | 2016 AFS reserve £000 |
|----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| Unlisted equity securities | - | - | 157 | - |

The investment sectors have concentrations around Manufacturing 0% (2016: 100%) and Financial Services 0% (2016: 0%). Geographic exposure is within Europe 0% (2016: 100%).

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 2017 | Up to 1 mth £000 | 1-3 mths £000 | 3-12 mths £000 | +5yrs £000 | Total £000 |
|---|---------------------|------------------|-------------------|---------------|---------------|
| Financial liabilities held at fair value through profit or loss | - | - | - | - | - |
| Total liabilities | - | - | - | - | - |
| As at 31 December 2016 | Up to 1 mth £000 | 1-3 mths £000 | 3-12 mths £000 | +5yrs £000 | Total £000 |
| Financial liabilities held at fair value through profit or loss | - | - | - | 1,571 | 1,571 |
| Total liabilities | - | - | - | 1,571 | 1,571 |

Offsetting

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

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

15. Fair values

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

| | Note | Carrying amount 2017 £000 | Fair value 2017 £000 | Carrying amount 2016 £000 | Fair value 2016 £000 |
|--|------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|
| Equity securities - available-for-sale | 8 | - | - | - | - |
| Financial assets held at fair value through profit or loss | 8 | - | - | 1,571 | 1,571 |
| Bank balances | 10 | 875 | 875 | 6,875 | 6,875 |
| Financial liabilities held at fair value through profit or loss | 13 | - | - | (1,571) | (1,571) |
| | | 875 | 875 | 6,875 | 6,875 |
| 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 | Note | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|--|----------|---------------------|---------------------|---------------------|-------------------|
| At 31 December 2017 | | | | | |
| Financial assets held at fair value through profit or loss | 8 | - | - | - | - |
| Financial liabilities held at fair value through profit or loss | 13 | - | - | - | - |
| Total net financial liabilities | | - | - | - | - |
| Valuation hierarchy | Note | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| At 31 December 2016 | | | | | |
| 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 assets | | - | - | - | - |

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

15. Fair values (continued)

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 2017 £000 | Financial assets held at FVTPL 2017 £000 | Total financial assets 2017 £000 | Financial liabilities held at FVTPL 2017 £000 |
|---|---------------------------------------|---|--|--|
| At 1 January 2017 | - | 1,571 | 1,571 | (1,571) |
| Gains/(Losses) recognised in: | | | | |
| Income Statement | - | 1,274 | 1,274 | (1,274) |
| Other comprehensive income | - | - | - | - |
| Redemption | - | (2,845) | (2,845) | 2,845 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| At 31 December 2017 | - | - | - | - |
| For assets held at the end of the reporting year: | | | | |
| Total gains/(losses) included in Income Statement for the year | - | 1,274 | 1,274 | (1,274) |
| Total losses included in other comprehensive expense for the year | - | - | - | - |

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

15. Fair values (continued)

| | Available for-sale 2016 £000 | Financial assets held at FVTPL 2016 £000 | Total financial assets 2016 £000 | Financial liabilities held at FVTPL 2016 £000 |
|--|---------------------------------------|---|--|--|
| 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 income included in other comprehensive income for the year | (4,295) | - | (4,295) | - |

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 2017 | | | As at 31 December 2016 | | |
|--|------------------------|-------------------------------|---------------------------------|------------------------|-------------------------------|---------------------------------|
| | Fair value £000 | Favourable changes £000 | Unfavourable changes £000 | Fair value £000 | Favourable changes £000 | Unfavourable changes £000 |
| Financial assets held at fair value through profit or loss | | | | | | |
| Equity investments | - | - | - | 1,571 | 314 | (314) |
| Financial liabilities held at fair value through profit or loss | | | | | | |
| FVTPL liability | - | - | - | (1,571) | (314) | 314 |
| Net financial assets | - | - | - | - | - | - |

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.

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

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

15. Fair values (continued)

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 a fellow subsidiary 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 2017 £000 | Balance at 31 December 2016 £000 | Income / (expense) included in Income Statement for the year ended 31 December 2017 £000 | Income / (expense) included in Income Statement for the year ended 31 December 2016 £000 | Disclosure in financial statements |
|---|------|-------------------------------------|-------------------------------------|---|---|------------------------------------|
| Capital contribution from intermediary parent | 12 | (111,392) | (117,392) | - | - | Capital and reserves |
| Bank balances | 10 | 875 | 6,875 | - | - | Cash and cash equivalents |

During the year the Company paid a dividend of £6,000,000 (2016: £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 (2016: £nil).

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 | The Mound, Edinburgh, EH1 1YZ |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017**17. Parent undertakings**

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

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.