PRESTONFIELD INVESTMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

MEMBER OF LLOYDS BANKING GROUP PLC

Company Number SC433725

Directors

N S Burnett
A Hulme

Company Secretary

D D Hennessey

Registered Office

The Mound
EDINBURGH
EH1 1YZ

Independent Auditors

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
EDINBURGH
EH3 8EX

Bankers

Bank of Scotland plc
Head Office
The Mound
EDINBURGH
EH1 1YZ

STRATEGIC REPORT
For the year ended 31 December 2017

The Directors submit their Strategic Report for Prestonfield Investments Limited ("the Company") for the year ended 31 December 2017.

Principal activity and future developments

The Company operates as an investment holding company and there has been no change in that activity during the year. The Company remains committed to the business of holding investments and will continue to manage existing investments in the future.

Business Review

During the year the Company managed investments for value and where appropriate supported the investments with additional funding. On the basis that the Company is an investment holding company, its performance is considered in respect of the underlying investment portfolio performance and valuations and these are reviewed through the relevant committees of Lloyds Banking Group plc ("the Group") under the Equity Governance Framework. As such, the key financial performance indicators relate to investment gains on disposal and valuation movements on fair value through profit or loss investments, including impairment charged to the Income Statement and, to a lesser extent, the income received from investments and subsidiaries.

The Company's performance is considered in respect of the underlying investment portfolio performance and valuations.

A gain on disposal of £9,897,000 (2016: £7,831,000) was recognised in the Income Statement following the disposal of several investments during the year. The Company aims to hold each investment for the appropriate time which will maximise returns to the Group and therefore profits recognised on disposals can fluctuate year on year. This is part of the ongoing Group wide strategy to dispose of non-core assets. Additional income of £89,441,410 (2016: £nil) was recognised as a result of subsidiary dividends.

The Balance Sheet shows total assets of £13,126,000 at the year end. Investments were £5,063,000 at the year end. The Company acquired no further investments from other Lloyds Banking Group subsidiaries during the year (2016: £nil).

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 the Group.

The Company has no employees (2016: none) and therefore the Directors have not commented on employee matters.

Risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the Group. Exposure to credit risk, interest rate risk and foreign exchange risk arises in the normal course of the Company's business. These risks are explained in Note 18 Financial Instruments.

On behalf of the Board,

N S Burnett
Director

26 September 2018

Company Number SC433725

Registered Office

The Mound
EDINBURGH
EH1 1YZ

DIRECTORS' REPORT
For the year ended 31 December 2017

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

Incorporation

The Company was incorporated in Scotland on 1 October 2012.

Results and dividends

The profit after tax for the year is £101,306,000 (2016: £10,168,000). The Directors approved the payment of a dividend in the sum of £144,000,000 during 2017 (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.

The Directors' dates of resignation and appointments during the year, or subsequent to the year end, are as follows:

Directors	**Date of Resignation**	**Date of Appointment**
A C Bone	23 February 2018	
A Hulme		23 February 2018

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

Directors' indemnities

The Group has granted to the Directors of the Company, (including former Directors who resigned during the year), a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The 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 existing 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.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, 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 year. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

INDEPENDENT AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

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

In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the Directors' Report and Strategic Report are approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

On behalf of the Board,

N S Burnett
Director
26 September 2018

Company Number SC433725

Registered Office

The Mound
EDINBURGH
EH1 1YZ

Independent auditors' report to the members of Prestonfield Investments Limited

Report on the financial statements

Our opinion

In our opinion, Prestonfield 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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Independent auditors' report to the members of Prestonfield Investments Limited

Strategic Report and Directors' Report

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

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

- **Responsibilities for the financial statements and the audit**

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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

INCOME STATEMENT
For the year ended 31 December 2017

	Note	2017 £000s	2016 £000s
Investment income	4	**91,812**	2,301
Profit on disposal of investments		**9,897**	7,831
Other income	6	**-**	20
Total income		**101,709**	10,152
Impairments reversal	7	**172**	470
Administrative expenses	5	**(31)**	(7)
Finance costs	8	**(10)**	(154)
Profit before tax		**101,840**	10,461
Income tax charge	9	**(534)**	(293)
Profit after tax for the year		**101,306**	10,168
Attributable to:			
Owners		**101,306**	10,168
Profit for the year		**101,306**	10,168

The notes on pages 13 to 35 are an integral part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	2017 £000s	2016 £000s
Profit for the year		**101,306**	10,168
Other comprehensive (expense)/income:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
- changes in fair value	13	**518**	(3,534)
- transferred to Income Statement in respect of disposals	13	**(497)**	(7,174)
		21	(10,708)
Movements in deferred tax	17	**(4)**	2,051
Other comprehensive (expense)/income for the year, net of tax		**17**	(8,657)
Total comprehensive income for the year		**101,323**	1,511
Total comprehensive income attributable to owners		**101,323**	1,511
Total comprehensive income for the year		**101,323**	1,511

The notes on pages 13 to 35 are an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2017

	Note	2017 £000s	2016 £000s
Assets			
Investment in associates	10	-	-
Investments	13	**5,063**	6,025
Cash and cash equivalents	14	**8,063**	51,490
Total assets		**13,126**	57,515
Equity			
Available-for-sale reserve		**19**	2
Retained earnings		**12,569**	55,263
Total equity		**12,588**	55,265
Liabilities			
Interest-bearing loans and borrowings	16	-	1,957
Income tax payable	9	**534**	293
Deferred tax liability	17	**4**	-
Total liabilities		**538**	2,250
Total equity and liabilities		**13,126**	57,515

The notes on pages 13 to 35 are an integral part of these financial statements.

The financial statements on pages 8 to 35 were approved by the Board of Directors on 26 September 2018 and were signed on its behalf by:

N S Burnett
Director

Company number: SC433725

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Available-for-Sale Reserve £000s	Retained Earnings £000s	Total Equity £000s
Balance at 1 January 2016	8,659	45,095	53,754
Profit for the year			
Profit after tax for the year	-	10,168	10,168
Other comprehensive income			
Available-for-sale financial assets	(8,657)	-	(8,657)
Total comprehensive income	(8,657)	10,168	1,511
Dividends paid	-	-	-
Balance at 1 January 2017	2	55,263	55,265
Profit for the year			
Profit after tax for the year	**-**	**101,306**	**101,306**
Other comprehensive expense			
Available-for-sale financial assets	**17**	**-**	**17**
Total comprehensive income	**17**	**101,306**	**101,323**
Dividends paid	**-**	**(144,000)**	**(144,000)**
Balance at 31 December 2017	**19**	**12,569**	**12,588**

The notes on pages 13 to 35 are an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 December 2017

	Note	2017 £000s	2016 £000s
Cash flows from operating activities			
Profit before tax		**101,840**	10,461
Adjustments for non-cash transactions:			
Profit on disposal of investments		**(9,897)**	(7,831)
Impairment of investments	7	**(172)**	(470)
Movement in accrued investment income		**(646)**	(580)
Dividends Received		**(91,166)**	(1,721)
Changes in working capital:			
Decrease/(increase) in trade and other receivables		-	1
Decrease in trade and other payables		-	(4)
Finance costs	8	**10**	154
Interest income		-	-
Cash used in operations		**(31)**	10
Interest received		-	3
Interest paid		**(9)**	(9)
Income tax paid		**(293)**	(508)
Net cash used in operating activities		**(333)**	(504)
Cash flows from investing activities			
Dividends Received		**91,166**	1,721
Proceeds from sale of investments		**11,606**	41,019
Net cash from investing activities		**102,772**	42,740
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings		**(1,957)**	(4,957)
Dividends paid		**(144,000)**	(-)
Net cash used in financing activities		**(145,957)**	(4,957)
Increase/(Decrease) in cash and cash equivalents		**(43,518)**	37,279
Exchange gain/(loss) on cash and cash equivalents		**91**	33
Cash and cash equivalents at beginning of year		**51,490**	14,244
Cash and cash equivalents at the end of the year	14	**8,063**	51,490

The notes on pages 13 to 35 are an integral part of these financial statements.

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

1. Significant accounting policies

The Company is incorporated and domiciled in Scotland.

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

(a) Financial statements

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

(b) Statement of compliance

The 2017 statutory financial statements set out on pages 8 to 35 have been prepared in accordance with IFRS and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. Consequently, the financial statements comply with IFRS.

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the year 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 values: financial instruments classified as available-for-sale and designated at fair value through profit or loss.

(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 ending 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Company.

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
IFRS 9 *Financial Instruments*	IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the company. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') approach. 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 incurred losses in IAS 39. The full impact of this pronouncement is being assessed by the Company. However, the initial view is that this pronouncement is not expected to cause any material adjustments to the reported numbers in the financial statements.	Annual periods beginning on or after 1 January 2018.
IFRS 15 *Revenue from Contracts with Customers*	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. 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.

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

1. Significant accounting policies (continued)

(e) Foreign currency

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

Translation differences on non-monetary financial instruments classified as available-for-sale financial assets are included in the available-for-sale reserve in equity, unless designated in a fair value hedging relationship where it is recognised in the Income Statement together with foreign currency translation differences on the hedging instrument.

(f) Hedge accounting

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

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

(g) Financial assets and liabilities

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

Jointly controlled entities and associates

Jointly controlled entities are joint arrangements over which the Company has joint control with other parties and has rights to the net assets of the arrangements. Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control of these policies, and is generally achieved through holding between 20 per cent and 50 per cent of the voting share capital of the entity. The Company records such investments at historic cost less impairment.

Investments in subsidiary undertakings

Subsidiaries are entities controlled by the Company. The Company controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls an entity. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of these factors. Subsidiaries are recognised from the date on which control is transferred to the Company; they are de-recognised from the date that control ceases. The Company records such investments at historic cost less impairment.

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

1. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Investments in debt and equity securities

Debt securities not quoted on active market are classified as loans and receivables. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the Balance Sheet at amortised cost using the effective interest rate method less provision for impairment. Income on debt securities is recognised on an effective interest rate basis (see Note 1(o)) where it can be reliably estimated and recognised upon receipt where it cannot be reliably estimated and recorded as investment income in the Income Statement.

Financial instruments held at fair value through profit or loss

Financial instruments are classified at fair value through profit or loss where they are designated at fair value through profit or loss by management. They 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. They 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 other investment securities are classified as available-for-sale. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the Balance Sheet at fair value. Unrealised gains or losses arise from changes in the fair values and are recognised in the Statement of Comprehensive Income and accumulated in the available-for-sale reserve, except for impairment losses which are recognised immediately in the Income Statement as impairment on investment securities. Income from equity shares is credited to investment income. On sale or maturity, previously unrealised gains and losses are reclassified from other comprehensive income to profit or loss on disposal of equity investments.

Other financial liabilities

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

(h) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less impairment losses.

(i) 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 with the Group with an original maturity of three months or less.

(j) 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)

(j) 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 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.

(k) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

At the end of each reporting period the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indicator exists, and there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised, the previously recognised impairment loss is reversed through the Income Statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

1. Significant accounting policies (continued)

(k) Impairment of non-financial assets (continued)

Jointly controlled entities and associates - In assessing whether there is any indication that an asset may be impaired, the Company considers, as a minimum, the following indications:

- during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Subsidiaries - At each Balance Sheet date an assessment is undertaken to determine if there is any indication of impairment of subsidiaries. This assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the subsidiary. If there is an indication of impairment, an estimate of the recoverable amount is made. If the carrying value exceeds the recoverable amount then a provision for subsidiary undertakings impairment is made to reduce the carrying value to the recoverable amount.

(l) Interest-bearing loans and borrowings

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

(m) Trade and other payables

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

(n) Share capital

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

(o) Revenue recognition

Interest income and expense are recognised in the Income Statement for all interest-bearing financial instruments using the effective interest method where it can be reliably estimated and recognised on a cash basis where it cannot be reliably measured. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

1. Significant accounting policies (continued)

(o) Revenue recognition (continued)

The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts expected to be paid or received by the Company including expected early redemption fees and related penalties and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account in the calculation. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss (see Note 1(j)).

Fees and commissions which are not an integral part of the effective interest rate are generally recognised when the related service has been provided within other income in the Income Statement.

Dividend income is recognised when the right to receive payment is established and recognised in the Income Statement as income from investment in associates, income from investment in jointly controlled entities, income from investment in subsidiary undertakings and investment income.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within loss / profit on disposal of investments in the Income Statement.

(p) Finance costs

Finance costs relate to interest payable on borrowings and foreign exchange gains and losses. 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 asset or liability and is not revised subsequently.

(q) 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 to the Statement of Comprehensive Income and is subsequently reclassified to the Income Statement together with the deferred gain or loss.

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

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

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

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.

(a) Designation of financial instruments

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

- Non-derivative financial assets, other than those held for trading, where there is no active market and which have fixed or determinable payments are classified as 'loans and receivables';
- 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';
- The Company has chosen not to designate any financial assets as 'held to maturity';
- All other financial assets are classified as 'available-for-sale'; and
- All other financial liabilities are classified as 'at amortised cost'.

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

(b) Impairment of investments

As explained in Note 1(j), investment securities are continually reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset and, in the case of debt securities, non-receipt of due interest or principal repayment, a breach of covenant within the security's terms and conditions or a measurable decrease in the estimated future cash flows since their initial recognition.

The disappearance of active markets, declines in market value and ratings downgrades do not in themselves constitute objective evidence of impairment and, unless a default has occurred on a debt security, the determination of whether or not objective evidence of impairment is present at the Balance Sheet date requires the exercise of management judgement.

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Management uses its judgement to select appropriate valuation models and further judgements are exercised when assessing the inputs to, and outcomes from, the valuation model.

Note 18 to the financial statements provides further information regarding the fair value of financial instruments not traded in active markets, including sensitivity analysis of the key management judgements.

(d) Deferred tax

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

3. Going concern – Principles underlying going concern assumption

The Directors are satisfied that it is the intention of the Group that its subsidiaries including the Company will continue to have access to adequate 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
	£000s	£000s
Income from:		
Loans and receivables	**646**	580
Dividends received	**91,166**	1,721
	91,812	2,301

5. Administrative expenses

	2017	2016
	£000s	£000s
Legal and professional fees	**31**	7

For the years ended 31 December 2017 and 31 December 2016, the audit fee has been accrued and paid centrally by the Company's ultimate parent, Lloyds Banking Group plc, which makes no recharge to the Company

The Company has no employees (2016: none). The Directors, who are considered to be key management, received no remuneration in respect of their services to the Company. The emoluments of the Directors are paid by a fellow Group undertaking on behalf of the ultimate parent, Lloyds Banking Group plc, which makes no recharge to the Company. The Directors are also directors of a number of other subsidiaries of the Group and are also substantially engaged in managing their respective business areas within the Group. 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.

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

6. Other income

	2017 £000s	2016 £000s
Fee and commission income	-	7
Other income	-	13
	-	20

7. Impairments reversal

	Note	2017 £000	2016 £000
Net reversals of associates	10	-	2
Net reversals of equity and loans and receivables investments	13	172	468
		172	470

8. Finance costs

	2017 £000s	2016 £000s
Interest on borrowings from related parties	10	6
Foreign exchange loss	-	148
	10	154

9. Income tax charge

Recognised in the Income Statement

	2017 £000s	2016 £000s
Current tax		
Current year	520	293
Adjustments in respect of prior years	14	-
	534	293

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

	2017 £000s	2016 £000s
Profit before tax	101,840	10,461
Profit multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	19,604	2,092
Income not chargeable for corporation tax purposes	(18,986)	(347)
Book gains covered by capital losses/indexation/substantial shareholdings	(99)	(1,563)
Other adjustments	1	2
Tax losses where no deferred tax recognised	-	109
Adjustments in respect of prior years	14	-
Total income tax charge	534	293

The current tax payable of £534,000 (2016: £293,000) represents the amount of income taxes payable in respect of the current and prior years. Corporation tax is calculated at a rate of 19.25% (2016: 20.00%) of the taxable profits for the year.

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

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

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

10. Investment in associates

	2017	2016
	£000s	£000s
At 1 January	-	35
Foreign Exchange	-	(6)
Disposals	-	(31)
Reversal of Impairments in the Income Statement	-	2
At 31 December	-	-

The Company disposed of its investment in Prestbury 1 Limited Partnership during the year. As at December 2017 the company held no associate investments (2016: 1).

11. Investment in jointly controlled entities

All investments in joint ventures are held at £nil value at year end (2016: £nil).

Details of the Company's joint ventures are as follows:

Name of joint venture	**Proportion of ownership**	**Principal business**	**Registered Office**	**Reporting date of financial statements**
FHR European Ventures LLP	50%	Investment dormant company	78 Cannon Street, London, EC4N 6AF, UK	31 December

12. Investment in subsidiary undertakings

Details of the Company's subsidiaries are as follows:

Name of subsidiary	**Proportion of ownership**	**Principal business**	**Registered Office**	**Reporting date of financial statements**
Uberior (Moorfield) Limited	100%	Investment holding company	The Mound, Edinburgh, EH1 1YZ, UK	31 December
Prestonfield P1 Limited*	100%	Investment holding company	EY Atria One, 144 Morrison Street, Edinburgh, EH3 8EB, UK	31 December
Prestonfield P2 Limited *	100%	Investment holding company	EY Atria One, 144 Morrison Street, Edinburgh, EH3 8EB, UK	31 December
Prestonfield P3 Limited *	100%	Investment holding company	EY Atria One, 144 Morrison Street, Edinburgh, EH3 8EB, UK	31 December

*These subsidiaries were dissolved on 18 March 2018.

The proportion of the voting rights in the subsidiary undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

The Company made no impairments during 2017 (2016: £nil).

All investments in subsidiaries are held at £nil value at year end (2016: £nil).

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

13. Investments

	Note	2017 £000s	2016 £000s
Investments			
Loans and receivables	(a)	5,015	4,369
Equity securities	(b)	48	1,656
		5,063	6,025
Income Statement impairment charge/(reversal) in the year			
Loans and receivables	(a)	(172)	986
Equity securities – available-for-sale	(b)	-	(518)
		(172)	468

(a) Loans and receivables

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

For the year ended 31 December 2017	Loans and advances to customers £000s	Debt securities £000s	Total £000s
Gross loans and receivables			
As at 1 January 2017	37	4,504	4,541
Additions	-	646	646
Disposals	-	(172)	(172)
As at 31 December 2017	37	4,978	5,015
Provision for impairment			
As at 1 January 2017	-	(172)	(172)
Impairment reversed	-	172	172
As at 31 December 2017	-	-	-
Net loans and receivables			
As at 31 December 2017	37	4,978	5,015

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

13. Investments (continued)
(a) Loans and receivables (continued)

For the period ended 31 December 2016	Loans and advances to customers £000s	Debt securities £000s	Total £000s
Gross loans and receivables			
As at 1 January 2016	572	8,156	8,728
Additions	-	598	598
Exchange translation	-	145	145
Disposals	(535)	(4,395)	(4,930)
As at 31 December 2016	37	4,504	4,541
Provision for impairment			
As at 1 January 2016	-	(2,208)	(2,208)
Impairment charge	-	986	986
Exchange translation	-	(124)	(124)
Disposals	-	1,174	1,174
As at 31 December 2016	-	(172)	(172)
Net loans and receivables			
As at 31 December 2016	37	4,332	4,369

All assets have been individually assessed for impairment. The gross loans and receivables value of £5,015,023 (2016: £4,540,755) includes £nil (2016: £171,918) of investments which are considered impaired, and which have a provision for impairment of £nil (2016: £171,918) to reduce their carrying value in accordance with the accounting policy detailed in Note 1(j) to the financial statements. No collateral was held. The loans and advances to customers were made entirely to companies operating in the property sector.

The remaining gross value of loans and receivables relates to investments neither past due nor impaired, which have an internal credit rating as detailed in the table below:

	2017 **£000s**	2016 £000s
Internal credit rating:		
Satisfactory risk	5,015	4,369
	5,015	4,369

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

13. Investments (continued)
(b) Equity securities

The movement in equity securities can be summarised as follows:

For the year ended 31 December 2017	Available-for-sale £000s	Total £000s
As at 1 January 2017	**1,656**	**1,656**
Disposals at cost	**(1,525)**	**(1,525)**
Changes to fair value in available-for-sale investments	**518**	**518**
Released to Income Statement	**(497)**	**(497)**
Exchange translation	**(104)**	**(104)**
As at 31 December 2017	**48**	**48**

For the year ended 31 December 2016	Available-for-sale £000s	Total £000s
As at 1 January 2016	41,884	41,884
Disposals	(29,346)	(29,346)
Changes to fair value in available-for-sale investments	(3,534)	(3,534)
Released to Income Statement	(7,174)	(7,174)
Exchange translation	344	344
Impairment Charge	(518)	(518)
As at 31 December 2016	1,656	1,656

Included in available-for-sale financial assets at 31 December 2017 are equity securities individually determined to be impaired whose gross amount before impairment allowances was £342,500 (2016: £4,945,167).

14. Cash and cash equivalents

	2017 £000s	2016 £000s
Cash at bank	**8,063**	51,490
Cash and cash equivalents in the statement of cash flows	**8,063**	51,490

15. Capital and reserves

Capital risk management

The distributable reserves of the Company are managed through the Group Capital and Funding Policy in order to maximise capital efficiency within the Group. Dividends are paid from reserves available for distribution to the parent undertaking as reported by the previously approved annual report and financial statements according to parameters set out at a Group level so as to avoid any build-up of reserve balances within the Company. 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.

15. Capital and reserves (continued)
Share capital

On 1 October 2012, upon incorporation, the Company issued one Ordinary Share to its parent undertaking, Uberior Investments Limited.

At 31 December 2017, the issued share capital comprised one £1 Ordinary Share (2016: £1).

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

Available-for-sale reserve

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

16. Interest-bearing loans and borrowings

	2017	2016
	£000s	£000s
Unsecured bank facility	-	1,957

Terms and debt repayment schedule
The unsecured bank facility was payable to the Company's fellow group undertaking, Bank of Scotland plc during the year. The loans bore interest at a fixed rate at 1.3% (2016: 0.4%) per annum up to its repayment on 24th August 2017. The carrying amounts of the Company's borrowings denominated in US Dollars are $nil (2016: $2,404,617).

17. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2017 £000s	**Liabilities 2017 £000s**	**Net 2017 £000s**	Assets 2016 £000s	Liabilities 2016 £000s	Net 2016 £000s
Equity securities – available-for-sale	-	(4)	-	-	-	-
Tax liabilities	-	(4)	-	-	-	-

Movement in temporary differences in the year:

	Balance at 1 Jan 2017 £000s	**Recognised in income £000s**	**Recognised in reserves £000s**	**Balance at 31 Dec 2017 £000s**
Equity securities – available-for-sale	-	-	(4)	(4)

Movement in temporary differences in the prior period:

	Balance at 1 Jan 2016 £000s	Recognised in income £000s	Recognised in reserves £000s	Balance at 31 Dec 2016 £000s
Equity securities – available-for-sale	-	-	-	-

Deferred tax assets of £54,815 (2016: £nil) have not been recognised in respect of unrealised capital losses carried forward as there are no predicted future capital profits. Once crystallised following the disposal of the assets, capital losses can be carried forward indefinitely.

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

18. Financial instruments

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

Credit Risk
Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business, principally from investment activities that bring debt securities into the Company's asset portfolio. The table below sets out the maximum exposure to credit risk at the Balance Sheet date.

	Note	**2017** £000s	2016 £000s
On Balance Sheet:			
Bank deposits	14	**8,063**	51,490
Investments – loans and receivables	13	**5,015**	4,369
		13,078	55,859

Loans and receivables in issue are carried at amortised cost adopting the impairment policy described within Note 1(j) to the financial statements; exposure is concentrated amongst UK registered institutions who are primarily engaged in hotel and real estate activities. At the reporting date a number of the debt securities were considered impaired (refer to Note 13), these are included in the high risk category below.

The Company manages credit exposures using an internal credit rating system. A summary of definitions used in the internal credit rating system are as follows:

- High Risk – where there is a provision for impairment against the debt securities.
- Viable but monitoring – no provision for impairment against the debt securities but likelihood of recovering all of the original cost is not certain.
- Satisfactory Risk – no provision for impairment against the debt securities and likelihood of recovering all of the original cost is high.

The table below sets out the internal credit rating of net loans and receivables after impairment:

	2017 %	2016 %
Internal rating - Satisfactory risk	**100**	100
Internal rating - Viable but monitoring	-	-
Internal rating - High risk	-	-

Other exposures consist of bank deposits with the Group and trade and other receivables.

Cash and cash equivalents representing inter-company balances within the Group have an internal credit rating of better than satisfactory. Trade and other receivables are carried at amortised cost, whereby any indication of impairment would result in an immediate write-down of the carrying value. Trade and other receivables include deferred consideration which has been recognised at Day 1 fair value and no further impairment has been recognised. At the reporting date these balances were not considered past due or impaired.

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

18. Financial instruments (continued)

Market risk

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors such as:

- Interest rates (interest rate risk)
- Foreign exchange rates (foreign exchange risk)
- Equity markets (equity risk)

At the reporting date, the Company's exposure to market risk arose from 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.

Debt securities have both fixed and variable interest rates which respond to prevailing market rates of interest. These securities are funded by fixed-rate bank loans, and a non-interest bearing bank account provided by another Group company. At the reporting date the Company also held a short term fixed rate deposit account with another Group company.

Accordingly, the Company does not consider itself to have any significant interest rate exposures.

Foreign exchange risk
Foreign exchange risk arises on monetary financial assets (included in "investments", and "cash and cash equivalents") and borrowings denominated in a currency other than Sterling. The currencies giving rise to this risk are the Euro and United States Dollar. The Company follows a policy of ensuring that all foreign currency financial assets are matched with borrowings in the same currency, thus minimal sensitivity to foreign exchange exposure is considered to exist.

In the year the Company operated a fair value hedge to hedge the foreign exchange risk arising from the impaired historic cost of available-for-sale equity instruments. This risk was hedged by a proportion of the foreign currency fixed interest term loans portfolio with £nil (2016: £1,956,994) of foreign currency fixed interest term loans being designated in a fair value hedge relationship at the 2017 year end.

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

	2017	2016
	£000s	£000s
Foreign exchange loss on hedging instrument	-	(347)
Foreign exchange gain on hedged item	-	347
Net ineffectiveness on fair value hedge	-	-

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

At the reporting date the carrying value of equity investments amounted to £48,000 (2016: £1,656,325). Unrealised gains/losses arising from changes in fair value of investments designated as fair value through profit and loss are recognised directly in the Income Statement, whereas 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.

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

18. Financial instruments (continued)

The table below sets out the sensitivity of the AFS reserve (before tax) and profit before tax to a 10% fall in fair value of equity investments as at the Balance Sheet date.

	2017 AFS Reserve £000s	2017 PBT £000s	2016 AFS Reserve £000s	2016 PBT £000s
Listed/unlisted equity investments	5	-	2	163

The underlying investment sector has concentrations around Real Estate 100% (2016: 100% Real Estate).

Geographic exposure is predominantly within the United Kingdom (2016: predominantly India).

Liquidity risk
Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows relating to assets, liabilities and off-Balance Sheet instruments. The Company's short term liquidity requirements are supported by a facility with another Group company subject to internal limits. Overall liquidity of the Group is managed centrally.

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

As at 31 December 2017	**Up to 1 month £000s**	**1-3 months £000s**	**3-12 months £000s**	**1-5 years £000s**	**Over 5 years £000s**	**Total £000s**
On-Balance Sheet						
Trade and other payables	-	-	-	-	-	-
Interest-bearing loans and borrowings	-	-	-	-	-	-
Income tax payable	-	-	**534**	-	-	**534**
Off-Balance Sheet						
Undrawn financial commitments	-	-	-	-	-	-
Total liabilities	-	-	534	-	-	534

As at 31 December 2016	Up to 1 month £000s	1-3 months £000s	3-12 months £000s	1-5 years £000s	Over 5 years £000s	Total £000s
On-Balance Sheet						
Trade and other payables	-	-	-	-	-	-
Interest-bearing loans and borrowings	1,957	-	-	-	-	1,957
Income tax payable	-	-	293	-	-	293
Off-Balance Sheet						
Undrawn financial commitments	382	-	-	-	-	382
Total liabilities	2,339	-	293	-	-	2,632

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

18. Financial instruments (continued)
Fair values
The fair values together with the carrying amounts shown in the Balance Sheet are as follows:

	Note	**2017 Carrying amount £000s**	**2017 Fair value £000s**	2016 Carrying amount £000s	2016 Fair value £000s
Equity securities - available-for-sale	13	**48**	**48**	1,656	1,656
Loans and receivables	13	**5,015**	**5,015**	4,369	4,369
Cash at bank	14	**8,063**	**8,063**	51,490	51,490
Interest-bearing loans and borrowings	16	**-**	**-**	(1,957)	(1,957)
Income tax payable	9	**(534)**	**(534)**	(293)	(293)
Deferred tax	17	**(4)**	**(4)**	-	-
		12,588	**12,588**	55,265	55,265
Unrecognised gains			**-**		-

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 listed securities is based on quoted market prices at the Balance Sheet date without any deduction for transaction costs. Fair value of unlisted equity securities is calculated in accordance with the Group valuation policy and with the International Private Equity Venture Capital guidelines. The policy allows for an earnings multiple, net asset value or discounted cash-flow approach to be taken dependent on the sector and circumstances of the investee. The main inputs and assumptions of these approaches are discussed in further detail below.

Loans and receivables
Where the loans and receivables are impaired and the recoverable value (i.e. net present value of appropriately discounted cash-flows) is considered to be lower than its carrying value, an impairment has been processed to bring the carrying value down to the recoverable value. Therefore it is considered that the carrying value of these loans and advances approximates to the fair value. The fair value of loans and advances that are not impaired is also determined by using discounted cash-flow analysis valuation techniques.

Trade and other receivables / Trade and other payables
For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. With regard to the deferred premium, fair value is calculated based on discounted expected future cash flows.

Cash and cash equivalents
The fair value of cash and cash equivalents repayable on demand is considered to be equal to their carrying value.

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

Fair value of financial instruments carried at fair value
The table below provides 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**	**2017 £000s**	2016 £000s
Available-for-sale financial assets			
Level 1		**48**	27
Level 2		**-**	-
Level 3		**-**	1,629
Total financial assets	13	**48**	1,656

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

18. Financial instruments (continued)

Fair values (continued)

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 portfolios
Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 generally comprise equity shares, 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 instruments valuation is not based on observable market data. Such instruments would include the Company's unlisted equity investments which are valued using various valuation techniques that require significant management judgement 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 measurements in Level 3 of the fair value hierarchy.

For the year ended 31 December 2017	**Available-for-sale £000s**	**Total £000s**
As at 1 January 2017	**1,629**	**1,629**
Gains / (losses) recognised in:		
- Income Statement	**393**	**393**
- Other comprehensive income	**(497)**	**(497)**
Disposals	**(1,525)**	**(1,525)**
As at 31 December 2017	-	-
For assets held at 31 December 2017		
Total gains included in Income Statement for the year	-	-
Total gains included in other comprehensive income for the year	-	-

For the period ended 31 December 2016	Available-for-sale £000s	Total £000s
As at 1 January 2016	41,752	41,752
Additions	-	-
Gains / (losses) recognised in:		
- Income Statement	(7,157)	(7,157)
- Other comprehensive income	(3,620)	(3,620)
Disposals	(29,346)	(29,346)
As at 31 December 2016	1,629	1,629
For assets held at 31 December 2016:		
Total losses included in Income Statement for the year	(7,157)	(7,157)
Total gains included in other comprehensive income for the year	3,620	3,620

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

18. Financial instruments (continued)

Fair values (continued)

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3 of the fair value hierarchy, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects:

	Effect on Profit and Loss		Effect on Other Comprehensive Income	
	Favourable	Unfavourable	Favourable	Unfavourable
	£000s	£000s	£000s	£000s
31 December 2017				
Investment securities	-	-	5	(5)
31 December 2016				
Investment securities	-	(163)	163	-

The favourable and unfavourable effects of using reasonably possible alternative assumptions for investment securities have been calculated by recalibrating the valuation models.

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 inputs and assumptions under each method at 31 December 2017 are as follows:

- Earnings multiple approach - based on maintainable earnings and appropriate valuation multiple. The valuation multiples are based on the median of comparator company multiples which are then discounted as appropriate. It is reasonably possible that an alternative discount factor could be applied to the multiple used in these valuations.

- Net asset value approach - valuation of assets and liabilities of the company. Depending on the individual circumstances of the company involved this may be based on most recent management accounts, financial statements and recent property valuations or most recent fund manager report, adjusted appropriately for estimated property valuation movements, timing and recoverability issues. It is reasonably possible that alternative adjustments to the net asset value or property values could apply in these valuations.

- Discounted cash-flow approach - estimated future cash-flow projections predominantly based on management forecasts with application of discount/sensitivity if deemed appropriate, exit yields/terminal multiples and discount rates determined based on knowledge of the investments, sector information and rates used in recent valuations. It is reasonably possible that an alternative discount factor or exit yields/terminal multiples could apply in these valuations.

19. Financial commitments

As at 31 December 2017, the Company has undrawn commitments in investment securities of £nil (2016: £381,667).

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

20. Related parties

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

(a) Transactions with Bank of Scotland plc

Nature of transaction	Note	Balance at 31 December 2017 £000s	Balance at 31 December 2016 £000s	Income/ (expense) included in Income Statement for the year ended 31 December 2017 £000s	Income/ (expense) included in Income Statement for the year ended 31 December 2016 £000s	Disclosure in financial statements
Bank account	14	**8,063**	51,490	-	-	Cash and cash equivalents
Term loans	18	-	(1,957)	-	-	Interest-bearing loans and borrowings
Interest payable on term loans	8	-	-	**(10)**	(6)	Finance costs

(b) Transactions with jointly controlled entities

Nature of transaction	Note	Balance at 31 December 2017 £000s	Balance at 31 December 2016 £000s	Income/ (expense) included in Income Statement for the year ended 31 December 2017 £000s	Income/ (expense) included in Income Statement for the year ended 31 December 2016 £000s	Disclosure in financial statements
Fee and commission income from jointly controlled entities	6	-	-	-	-	Other income
Loans and receivables – debt security interest	13	-	-	-	-	Investments – loans and advances
Investment income	4	-	-	-	-	Investment income from jointly controlled entities

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

20. Related parties (continued)

(c) Transactions with subsidiary undertakings

Dividends received from subsidiary undertakings

The following dividends have been received from subsidiary undertakings:

Subsidiary	**2017**	2016
	£000	£000
Prestonfield P1 Limited	**23,523**	-
Prestonfield P2 Limited	**24,005**	-
Prestonfield P3 Limited	**23,913**	-
Uberior (Moorfield) Limited	**18,000**	

The registered offices of related parties are noted below:

Related party	Registered address
Bank of Scotland Plc	The Mound, Edinburgh, EH1 1YZ
Uberior Investments Limited	The Mound, Edinburgh, EH1 1YZ
FHR European Ventures LLP	78 Cannon Street, London, EC4N 6AF, UK
Prestonfield P1 Limited	Ey Atria One, 144 Morrison Street, Edinburgh, EH3 8EB
Prestonfield P2 Limited	Ey Atria One, 144 Morrison Street, Edinburgh, EH3 8EB
Prestonfield P3 Limited	Ey Atria One, 144 Morrison Street, Edinburgh, EH3 8EB
Uberior (Moorfield) Limited	The Mound, Edinburgh, EH1 1YZ

21. Parent undertakings

The immediate parent undertaking is Uberior Investments Limited.

The ultimate parent undertaking and controlling party is the 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 the financial statements of both companies may be obtained from the Group's head office at 25 Gresham Street, London, EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

22. Post balance sheet events

The following subsidiaries were dissolved in post year end:

Subsidiary	Date of dissolution
Prestonfield P1 Limited	18 March 2018
Prestonfield P2 Limited	18 March 2018
Prestonfield P3 Limited	18 March 2018