

PRESTONFIELD P3 LIMITED  
(FORMERLY KNOWN AS DUNWILCO (1828) LIMITED)  
REPORT AND FINANCIAL STATEMENTS  
FOR THE PERIOD 28 JULY 2014 TO 31 DECEMBER 2015  
MEMBER OF LLOYDS BANKING GROUP

THURSDAY



SCT \*S55CKAW8\* #406  
21/04/2016  
COMPANIES HOUSE

Company Number SC483045

Directors

F J Gibson  
A J N Hewitt

Company Secretary

P Gittins

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 period 28 July 2014 to 31 December 2015**

The Directors submit their Strategic Report on Prestonfield P3 Limited (the "Company") for the period 28 July 2014 to 31 December 2015.

**Principal activity and future developments**

During the period, the Company operated as an investment holding company. Subsequent to period end, the company disposed of its only investment (note 13). The principal activity of the Company is now the management of financial assets and will continue to manage these financial assets in the future.

**Business review**

During the period the Company managed an investment for value therefore its performance is considered in respect of the underlying investment performance and valuations. As such, the key financial performance indicators relate to valuation movements taken to profits.

The Company's profit before tax for the financial period is £20,015,000, solely relating to valuation movements.

The Balance Sheet shows a net asset position of £16,680,000.

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

The Company has no employees 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 Lloyds Banking Group plc group of companies ("the Group"). Exposure to credit, interest rate, equity and foreign exchange risk arises in the normal course of the Company's business. These risks are explained in Note 10 'Financial Instruments' to the financial statements. The Company is funded by its intermediate parent undertaking and as a result liquidity risk is managed within the Group.

By Order of the Board,



A J N Hewitt  
Director

Company Number: SC483045

**DIRECTORS' REPORT**  
**For the period 28 July 2014 to 31 December 2015**

The Directors, as listed on page 1, submit their report and audited financial statements of Prestonfield P3 Limited ("the Company") for the period 28 July 2014 to 31 December 2015.

**Incorporation**

The Company was incorporated in Scotland on 28 July 2014.

**Results and dividends**

The profit after tax for the financial period is £16,680,000. This has been generated through valuation movements of investments held at fair value partially offset by taxation charges.

The balance sheet shows assets of £31,590,000 and equity of £16,680,000, which is wholly attributable to the profit for the period.

The Directors do not recommend the payment of a dividend in the current financial period.

**Going concern**

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

**Directors and their interests**

The Directors at the date of this report are stated on page 1. Dates of appointments and resignations during the period, or subsequent to the period end, are as follows:

<b>Director</b>	<b>Date of appointment</b>	<b>Date of resignation</b>
F J Gibson	23 July 2015	-
A J N Hewitt	9 September 2014	-
B S Anderson	9 September 2014	10 February 2015
K C Rose	28 July 2014	9 September 2014
D.W. Director 1 Ltd	28 July 2014	9 September 2014
D.W. Company Services Ltd	28 July 2014	9 September 2014

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

**Directors' indemnities**

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

**DIRECTORS' REPORT****For the period 28 July 2014 to 31 December 2015**Independent Auditors and disclosure of information to Independent Auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed 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 is 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 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.

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 period. 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;
- 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,



A J N Hewitt  
Director

Company Number SC483045

# ***Independent auditors' report to the members of Prestonfield P3 Limited***

## **Report on the financial statements**

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### **Our opinion**

In our opinion the financial statements, defined below:

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

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

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### **What we have audited**

The financial statements, which are prepared by Prestonfield P3 Limited, comprise:

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

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

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

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### **What an audit of financial statements involves**

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

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

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

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## **Opinion on other matter prescribed by the Companies Act 2006**

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

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## ***Independent auditors' report to the members of Prestonfield P3 Limited (continued)***

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

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#### **Adequacy of accounting records and information and explanations received**

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

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

We have no exceptions to report arising from this responsibility.

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#### **Directors' remuneration**

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

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

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#### **Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' Responsibilities set out on 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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



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

 April 2016

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the period 28 July 2014 to 31 December 2015**

	Note	2015 £000s
Change in fair value of investments	6	<u>20,015</u>
<b>Profit before tax</b>	4	<b>20,015</b>
Income tax charge	5	(3,335)
<b>Profit for the period and total comprehensive income attributable to owners of the parent for the period</b>		<u><b>16,680</b></u>

The notes on pages 11 to 21 are an integral part of these financial statements.

The profit and total comprehensive income attributable to the owners of the parent for the period arises from the Company's continuing operations.




**BALANCE SHEET**  
As at 31 December 2015

	Note	2015 £000s
<b>Assets</b>		
Investments	6	<u>31,590</u>
<b>Total assets</b>		<u>31,590</u>
<b>Equity</b>		
Retained earnings		<u>16,680</u>
<b>Total equity</b>		<u>16,680</u>
<b>Liabilities</b>		
Cash and cash equivalents	7	<u>11,575</u>
Deferred tax liability	9	<u>3,335</u>
<b>Total liabilities</b>		<u>14,910</u>
<b>Total equity and liabilities</b>		<u>31,590</u>

The notes on pages 11 to 21 are an integral part of these financial statements.

The financial statements on pages 7 to 21 were approved by the Board of Directors on 20 April 2016 and were signed on its behalf by:



A J N Hewitt  
Director

Company number: SC483045

**STATEMENT OF CHANGES IN EQUITY**  
**For the period 28 July 2014 to 31 December 2015**

	<b>Retained Earnings £000s</b>	<b>Total Equity £000s</b>
<b>Balance at 28 July 2014</b>	-	-
<b>Total comprehensive income for the period</b>		
Profit for the period	16,680	16,680
<b>Balance at 31 December 2015</b>	<u>16,680</u>	<u>16,680</u>

The notes on pages 11 to 21 are an integral part of these financial statements.

**CASH FLOW STATEMENT**  
**For the period 28 July 2014 to 31 December 2015**

	Note	2015 £000s
<b>Cash flows from operating activities</b>		
Profit before tax		20,015
Adjustments for non-cash transactions:		
Change in fair value of investments	6	<u>(20,015)</u>
<b>Cash used in operations</b>		<u>-</u>
<b>Net cash used in operating activities</b>		<u>-</u>
<b>Cash flows used in investing activities</b>		
Acquisition of investments		<u>(11,575)</u>
<b>Net cash used in investing activities</b>		<u>(11,575)</u>
Decrease in cash and cash equivalents		(11,575)
Cash and cash equivalents at beginning of the period		<u>-</u>
<b>Cash and cash equivalents at the end of the period</b>	7	<u>(11,575)</u>

The notes on pages 11 to 21 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period 28 July 2014 to 31 December 2015**

**1. Significant accounting policies**

The Company is incorporated and domiciled in Scotland.

The financial statements were authorised for issue by the Directors on 20 April 2016.

**(a) Financial statements**

The financial statements of the Company comprise the 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 2015 statutory financial statements set out on pages 7 to 21 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 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 period 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 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 period ended 31 December 2015 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Company.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

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

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

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

<sup>1</sup> As at the date of this report, this standard is awaiting EU endorsement.

**(e) 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 as fair value through profit or loss 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 expired.

**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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income within net trading 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

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

**(f) 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.

**(g) Share capital**

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

**(h) Revenue recognition**

Dividend income is recognised when the right to receive payment is established and recognised in the Statement of Comprehensive Income as investment income.

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

**(i) 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.

**(j) 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 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

**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 (note 1(e)).

**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 period are addressed below.

**(b) 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 10 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.

**(c) Deferred tax**

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

**3. Going concern – Principles underlying going concern assumption**

The Company is reliant on funding provided by Bank of Scotland plc which is a subsidiary of the Group. 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

**4. Profit before tax**

The audit fee has been accrued and paid centrally by the Company's intermediate parent, Bank of Scotland plc, which makes no recharge to the Company.

The Company has no employees.

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.

**5. Income tax charge**

**Recognised in the Statement of Comprehensive Income**

	2015 £000s
<b>Deferred tax</b>	
Deferred taxation	3,393
Impact of tax rate change	(58)
Deferred tax on profit for the period	<u>3,335</u>

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

The Finance Act 2015 which was substantively enacted on 26 October 2015 included legislation to reduce the corporation tax rate applicable from 1 April 2017 to 19% and from 1 April 2020 to 18%.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

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

	2015 £000s
Profit before tax	<u>20,015</u>
Profit multiplied by the standard rate of corporation tax in the UK of 20.35%	4,072
Changes in corporation tax rate	(58)
Gains exempted or covered by capital losses	<u>(679)</u>
<b>Total income tax charge</b>	<u>3,335</u>

**6. Investments**

	2015 £000s
<b>Investments</b>	
Equity securities	<u>31,590</u>
	<u>31,590</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

**6. Investments (continued)**

**Equity securities**

The movement in equity securities can be summarised as follows:

	<b>Designated at fair value through profit or loss £000s</b>
<b>For the period 28 July 2014 to 31 December 2015</b>	
At 28 July 2014	-
Additions	11,575
Changes to fair value	20,015
At 31 December 2015	<u>31,590</u>

**7. Cash and cash equivalents**

	<b>2015 £000s</b>
Bank overdrafts	11,575
Cash and cash equivalents in the statement of cash flows	<u>11,575</u>

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

**8. 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.

**Share capital**

On 28 July 2014, upon incorporation, the Company issued one Ordinary Share to its parent undertaking, Prestonfield Investments Limited.

At 31 December 2015, the issued share capital comprised one £1 Ordinary Share. As permitted by the Companies Act 2006, the Company has removed references to authorised share capital from its articles of association.

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

**9. Deferred tax liability**

Deferred tax liabilities are attributable to the following:

	2015
	£000s
Equity securities	3,335
<b>Tax liabilities</b>	<b>3,335</b>

**Movement in temporary differences in the period:**

	Balance at 28 July 2014	Recognised in income	Balance at 31 Dec 2015
	£000s	£000s	£000s
Equity securities	-	3,335	3,335
	-	3,335	3,335

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

The Finance Act 2015 which was substantively enacted on 26 October 2015 included legislation to reduce the corporation tax rate applicable from 1 April 2017 to 19% and from 1 April 2020 to 18%.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

**10. 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 Company's only asset is a fair value through profit or loss investment and as such has no exposure to Credit risk.

**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. The Company has no assets or liabilities upon which interest is charged and is therefore not exposed to Interest rate risk.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

**10. Financial instruments (continued)**

**Foreign exchange risk**

All assets and liabilities of the Company are designated in pound sterling and as such, the Company is not exposed to Foreign exchange risk.

**Equity risk**

Equity risk exists from the Company's exposure to listed 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 £31,590,000. Unrealised gains/losses arising from changes in fair value of investments designated as fair value through profit and loss are recognised directly in the Statement of Comprehensive Income.

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

	2015 PBT £000s
Listed equity investments	<u>3,159</u>

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

Geographic exposure is entirely within the UK.

**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.

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

As at 31 December 2015 On-Balance Sheet	Up to 1 month £000s	1-3 months £000s	3-12 months £000s	1-5 years £000s	Over 5 years £000s	Total £000s
Bank overdraft	11,575	-	-	-	-	11,575
<b>Total liabilities</b>	<u>11,575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,575</u>

**Fair values**

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

	Note	2015 Carrying amount £000s	2015 Fair value £000s
Equity securities - fair value through profit or loss	6	31,590	31,590
Bank overdrafts	7	(11,575)	(11,575)
		<u>20,015</u>	<u>20,015</u>
Unrecognised gains			<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

**10. Financial instruments (continued)**

**Fair values (continued)**

**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 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.

**Cash and cash equivalents**

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

**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	2015 £000s
Fair value through profit or loss investments		
Level 3		31,590
Total financial assets	6	<u>31,590</u>

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 instrument's 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

**10. Financial instruments (continued)**

**Fair values (continued)**

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.

<b>For the period 28 July 2014 to 31 December 2015</b>	<b>Designated fair value through profit or loss £000s</b>	<b>Total £000s</b>
As at 28 July 2014	-	-
Additions	11,575	11,575
Gains recognised in:		
- Statement of Comprehensive Income	20,015	20,015
As at 31 December 2015	<u>31,590</u>	<u>31,590</u>

For assets held at 31 December 2015:

Total gains included in Statement of Comprehensive Income for the period	20,015	20,015
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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:

	<b>Effect on Profit and Loss</b>	
	Favourable £000s	Unfavourable £000s
<b>31 December 2015</b>		
Investment securities	<u>3,949</u>	<u>(3,949)</u>

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 the method used by the Company at 31 December 2015 are as follows:

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the period 28 July 2014 to 31 December 2015**

**11. Related parties**

The Company has a related party relationship with its intermediate parent company Bank of Scotland plc. A number of banking transactions are entered into with Bank of Scotland plc in the normal course of business through a bank overdraft.

**(a) Transactions with Bank of Scotland plc**

Nature of transaction	Note	Balance at	Income/(expense)	Disclosure in
		31 December 2015	included in Statement of	
		£000s	Comprehensive Income	statements
			for the period ended 31	
			December 2015	
			£000s	
Bank overdraft	7	(11,575)	-	Cash and cash equivalents

**12. Parent undertakings**

The immediate parent undertaking is Prestonfield Investments Limited.

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

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and 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](http://www.lloydsbankinggroup.com).

**13. Post balance sheet events**

On the 24 March 2016, the Company disposed of its only investment and as such, the principal activity of the Company has subsequently changed to the management of financial assets and will remain as such for the foreseeable future.