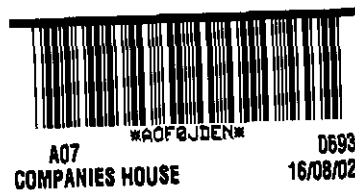


**Birmingham Midshires Mortgage Services No. 1 Limited**

**Directors' Report & Financial Statements**

**Year ended 31 December 2001**

**Registered No: 2538866**



## Directors' Report and Financial Statements

<b>Contents</b>	<b>Pages</b>
Directors and Company Information	2
Directors' Report	3-4
Statement of Directors Responsibilities	5
Report of the Auditors	6
Profit and Loss Account	7
Balance Sheet	8
Notes to the Financial Statements	9-12

**Directors and Company Information**

**Directors**

PR Beddows  
JW Gresham

**Secretary**

DJ McPherson

**Registered Office**

Trinity Road  
Halifax  
West Yorkshire  
HX1 2RG

**Registered Auditors**

KPMG Audit Plc  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

**Directors' Report  
for the year ended 31 December 2001**

The directors present their report together with the audited financial statements for the year ended 31 December 2001.

**Business objectives and principal activities**

The company has not traded during the year.

**Results for the year**

The company made a loss after taxation of £36,000 for the year (2000 profit: £1,380,000). The directors do not recommend the payment of a dividend.

**Directors and Directors' Interests**

The directors who have served during the year were as follows:

JW Gresham  
PR Beddows

During the year no director had any interest in the share capital of the company or of any group undertaking other than the ultimate holding company and no rights to subscribe for such interests were granted.

As a consequence of the merger with Bank of Scotland on 10 September 2001, the directors' share interests in Halifax Group plc have been exchanged for interests in HBOS plc on a one for one basis. Therefore the table below reflects interests in HBOS plc shares at 31 December 2001 and in those of Halifax Group plc at 1 January 2001.

The interests of the directors in the shares of the ultimate holding company, including interests in shares held beneficially under the long term and short term bonus schemes, were as follows:

	At 31 December 2001	At 1 January 2001
JW Gresham	37,496	18,318
PR Beddows	12,618	6,054

Share interests in the long term bonus scheme included above represent the maximum number which could be released under the term of that scheme. The number of shares actually released to participants under the scheme is dependent on the Group's annualised total shareholder return ("TSR") (defined as the gross overall return on ordinary shares of HBOS plc after all adjustments for capital actions and re-investment of dividends or other income) over three year periods compared to the annualised weighted average TSR of a basket of comparator companies over equivalent periods, as follows

Group's relative TSR performance	Proportion of share grant released
0% pa (or below)	0%
4% pa	100%
8% pa (or above)	200%

Under the terms of the HBOS plc sharesave schemes, options to acquire shares in the ultimate holding company were granted to or exercised by the following directors:

	Number of Options granted	Exercised in the Year
JW Gresham	Nil	Nil
PR Beddows	Nil	Nil

### **Auditors & Annual General Meeting**

Following a resolution passed by the members, the company has elected to dispense with the holding of Annual General Meetings, of laying financial statements and reports before the Company in General Meeting, and with the obligation to reappoint auditors annually.

A handwritten signature in black ink, appearing to read 'D J McPherson', is written over the typed name.

D J McPherson  
Secretary  
Halifax

15 February 2002

## **Statement of Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **Independent auditors' report to the Members of Birmingham Midshires Mortgage Services No.1 Limited**

We have audited the financial statements on pages 7 to 12.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2001 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc /

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

15 February 2002

**Profit and Loss Account**

For the year ended 31 December

	Note	2001 £000's	2000 £000's
Interest receivable		-	2,893
Interest payable	2	-	(903)
Gross profit		-	1,990
Administrative expenses	3	-	(81)
Profit on ordinary activities before taxation		-	1,909
Taxation on profit on ordinary activities	5	(36)	(529)
(Loss) / profit on ordinary activities after taxation		(36)	1,380

The company had no acquisitions in the period. The above profit and loss account is in respect of discontinued operations.

The company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.



**Balance Sheet**

as at 31 December

	Note	2001 £000's	2000 £000's
Current assets:			
Debtors : amounts falling due within one year	6	2,649	24,391
Total current assets		<u>2,649</u>	<u>24,391</u>
Creditors: amounts falling due within one year	7	-	(21,706)
Net assets		<u>2,649</u>	<u>2,685</u>
Capital and reserves:			
Called up share capital	9	12	12
Profit and loss account	10	2,637	2,673
Equity shareholder's funds	11	<u>2,649</u>	<u>2,685</u>

These financial statements were approved by the Board of Directors on 15 February 2002 and were signed on its behalf by:



P Beedows, Director

The notes on the pages 9 to 12 form part of these financial statements

## **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December

### **1 ACCOUNTING POLICIES**

#### **ACCOUNTING CONVENTION**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. There have been no changes to the company's accounting policies. A summary of the more important accounting policies which have been applied consistently is set out below.

#### **BASIS OF ACCOUNTING**

The financial statements are prepared in accordance with the historical cost convention.

#### **GOING CONCERN**

The directors of the ultimate parent undertaking, HBOS plc, have agreed to the continued support of Birmingham Midshires Mortgage Services No. 1 Limited. Therefore the financial statements have been prepared on the going concern basis.

#### **DEFERRED TAXATION**

Provision is made using the liability method for deferred taxation only to the extent that such taxation will become payable in the foreseeable future.

#### **MORTGAGE INDUCEMENTS**

Discounts on mortgages reduce interest receivable over an appropriate period. Cashback payments made as incentives to borrowers are charged to interest receivable as incurred.

#### **PROVISION FOR LOSSES ON LOANS AND ADVANCES**

Provision for losses on commercial assets, which include both those specifically identified and those provided for on a general basis, has been based upon a year end appraisal of the assets concerned. The amount charged to the profit and loss account represents losses written off in the period together with the increase in the ongoing provision less any releases. Interest charged to mortgage accounts relating to impaired loans which is considered to be irrecoverable is not recognised as interest receivable in the year.

#### **INTEREST RECEIVABLE**

Interest receivable is stated net of discounts, commissions and management fees earned from the company's principal activity in the United Kingdom.

#### **CASH FLOW STATEMENT**

Under FRS1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is ultimately a wholly owned subsidiary undertaking, and the consolidated financial statements of HBOS plc, in which the financial statements of the company are included, are publicly available.

**2 INTEREST PAYABLE**

	<b>2001</b>	<b>2000</b>
	<b>£000's</b>	<b>£000's</b>
On amounts owed to parent undertaking	-	903
	-	903

**3 ADMINISTRATIVE EXPENSES**

	<b>2001</b>	<b>2000</b>
	<b>£000's</b>	<b>£000's</b>
Auditors' remuneration	-	5
Increase in provision for losses on mortgage and losses written off	-	75
Other management costs	-	1
	-	81

**4 DIRECTORS' EMOLUMENTS**

None of the Directors received emoluments for their services in 2001 and 2000.

**5 TAXATION ON PROFIT ORDINARY ACTIVITIES**

	<b>2001</b>	<b>2000</b>
	<b>£000's</b>	<b>£000's</b>
United Kingdom Corporation Tax charge at 30.0% (2000: 30.0% ):		
Current	-	553
(Over) provision in previous years	-	(24)
Deferred (See note 8)	36	-
	36	529

**6 DEBTORS**

	<b>2001</b>	<b>2000</b>
	<b>£000's</b>	<b>£000's</b>
Amounts falling due within one year:		
Amounts due from ultimate parent undertaking	2,649	24,355
Deferred taxation (See note 8)	-	36
	2,649	24,391

**7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2001</b>	<b>2000</b>
	<b>£000's</b>	<b>£000's</b>
Amounts owed to parent undertaking	-	21,373
Corporation taxation	-	329
Other creditors	-	4
	-	21,706

**8 DEFERRED TAXATION**

	2001 £000's	2000 £000's
Deferred taxation effect of timing differences because of excess capital allowances over depreciation	-	36

The movement on the deferred taxation debtor is as follows:

As at 1 January	36	12
Transferred from Profit and Loss	(36)	24
At 31 December	-	36

**9 CALLED UP SHARE CAPITAL**

	2001 £	2000 £
Authorised 50,000 ordinary shares of £1 each	50,000	50,000
Alotted and fully paid 2 ordinary shares of £1 each	2	2
Alotted and 25 pence part paid 49,998 ordinary shares of £1 each	12,500	12,500
	12,502	12,502

**10 PROFIT AND LOSS ACCOUNT**

	2001 £000's	2000 £000's
At 1 January	2,673	1,293
Profit for the financial year	(36)	1,380
At 31 December	2,637	2,673

**11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS**

	2001 £000's	2000 £000's
Shareholder's funds at 1 January	2,685	1,305
Profit for the financial year	(36)	1,380
Shareholder's fund at 31 December	2,649	2,685

**12 RELATED PARTY TRANSACTIONS**

Birmingham Midshires Mortgage Services No. 1 Limited, as a wholly owned subsidiary undertaking of HBOS plc, has prepared its financial statements in accordance with an exemption contained in FRS8, "Related Party Disclosures". Under this exemption the company has not disclosed details of transactions with other group companies or investees of the group qualifying as related parties, as the consolidated financial statements in which Birmingham Midshires Mortgage services No.1 Ltd is included are publicly available.

### **13 ULTIMATE PARENT UNDERTAKING**

The largest Group in which the results of the Company are consolidated is that headed by HBOS plc which acquired 100% of the ordinary share capital of Halifax Group plc on 10 September 2001. Halifax Group plc owns 100% of the ordinary share capital of Halifax plc, the smallest Group in which the company is consolidated and the immediate parent undertaking of the Company.

Copies of the financial statements of HBOS plc and Halifax plc are available from The Mound, Edinburgh, EH1 1YZ.

The Company's ultimate parent undertaking is HBOS plc.