

Registered Number 2799756

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002



(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
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**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
DIRECTORS AND COMPANY INFORMATION**

DIRECTORS

S J Peters
J D M Smallwood
L J Town

SECRETARY

M S Lodge

REGISTERED OFFICE

Level 7
Bishopsgate Exchange
155 Bishopsgate
London
EC2M 3YB

AUDITORS

KPMG Audit Plc
1 Salisbury Square
London
EC4Y 8BB

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
DIRECTORS' REPORT**

The directors present their Report and the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITY

The Company's principal activity is to act as an investment company.

BUSINESS REVIEW

During the year the company was re-registered as a private limited company and the name of the company was changed to Old Broad Street Investments (Number 2) Limited. The company invested £218,296,606 in the Continental Sovereign Investments Partnership.

During the year the company issued 218,670,000 redeemable preference shares of £1.00 to finance its investment.

RESULTS AND DIVIDEND

The results for the year are shown in the profit and loss account on page 8. Interim dividends of £343,210.00 were paid during the year (2001 – nil).

FUTURE DEVELOPMENTS

The directors are committed to the effective management of its investments.

SUPPLIER PAYMENT POLICY

For the forthcoming period, the Company's policy for the payment of suppliers will be as follows:

- payment terms will be agreed at the start of the relationship with the supplier and will only be changed by agreement;
- standard payment terms to suppliers of goods and services will be 30 days from receipt of a correct invoice for satisfactory goods or services which we have ordered and received unless other terms are agreed in a contract;
- payment will be made in accordance with the agreed terms or in accordance with the law if no agreement has been made;
- suppliers will be advised when an invoice is contested without delay and we will settle disputes as quickly as possible.

The company will comply with the Better Payment Practice Group's Code. Information regarding this code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk.

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
DIRECTORS' REPORT (CONT'D)**

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were as follows:

A.W. Jukes (resigned on 6th December 2002)
S.R. Krag (resigned on 10th July 2002)
S.J. Peters
J.D.M. Smallwood
L.J. Town

During the year no director had any beneficial interest in the share capital of the company or of any group undertaking other than in HBOS plc, the ultimate holding company, details of which are set out below.

Directors' beneficial interests in the ordinary shares of HBOS plc were as follows:-

	<u>At 31 December, 2001</u>	<u>At 31 December, 2002</u>
	<u>Ordinary Shares of 25p each</u>	<u>Ordinary Shares of 25p each</u>
S J Peters	Nil	Nil
J D M Smallwood	6,247	12,106
L J Town	Nil	Nil

In addition J D M Smallwood is beneficially interested in 400 Preference Shares in Halifax plc.

SHORT TERM INCENTIVE PLAN

Certain Directors have a conditional entitlement to shares arising from the annual incentive. Where the annual incentive for 2000/2001 was taken in shares and these shares are retained in trust for 3 years, the following shares will also be transferred to the Directors.

	<u>#Shares granted in year</u>	<u>#Shares held as at 31 December 2002</u>
S J Peters	Nil	Nil
J D M Smallwood	2,929	5,643
L J Town	Nil	Nil

Ordinary shares of 25p each

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
DIRECTORS' REPORT (CONT'D)

LONG TERM BONUS SCHEME

Conditional awards of ordinary shares of HBOS plc were granted to Directors during the period to 31 December, 2002 as follows:

	<u>#Conditional Awards held as at 1 January 2002</u>	<u>#Awards granted</u>	<u>#Awards lapsed</u>	<u>#Conditional Awards held as at 31 December 2002</u>
S J Peters	Nil	Nil	Nil	Nil
J D M Smallwood	46,598	26,666	Nil	73,264
L J Town	Nil	10,416	Nil	10,416

Ordinary shares of 25p each

Conditional awards held by directors arise from the HBOS long term incentive plans and former Halifax long term plan, the detailed conditions of which are provided within the HBOS Annual Report and Accounts.

SHARESAVE PLAN

Options to subscribe for ordinary shares of HBOS plc under sharesave plans as at 31 December 2002 were as follows:

	<u>#Options held as at 1 January 2002 or date of appointment</u>	<u>#Options granted</u>	<u>#Options exercised/ lapsed</u>	<u>#Options held as at 31 December 2002</u>
S J Peters	2,362	Nil	Nil	2,362
J D M Smallwood	2,362	Nil	Nil	2,362
L J Town	3,142	Nil	Nil	3,142

Ordinary shares of 25p each

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
DIRECTORS' REPORT (CONT'D)**

HBOS INLAND REVENUE APPROVED SHARE OPTION PLAN

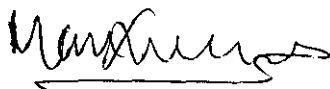
Options in ordinary shares of HBOS plc, held under HBOS Inland Revenue Approved Share Option plan as at 31 December 2002 were as follows:

	<u>#Options held as at 1 January 2002 or date of appointment</u>	<u>#Options granted</u>	<u>#Options exercised/ lapsed</u>	<u>#Options held as at 31 December 2002</u>
S J Peters	Nil	2,662	Nil	2,662
J D M Smallwood	Nil	Nil	Nil	Nil
L J Town	Nil	3,328	Nil	3,328

Ordinary shares of 25p each

Under the HBOS Inland Revenue Approved Share Option Plan, shares are granted to all HBOS employees, except certain senior executives.

By Order of the Board



M S LODGE
SECRETARY

Level 7
Bishopsgate Exchange
155 Bishopsgate
London
EC2M 3YB

17 February 2003

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
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 or 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 a 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 OLD BROAD STREET INVESTMENTS (NUMBER 2)
LIMITED**

We have audited the financial statements on pages 9 to 15.

The report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The directors are responsible for preparing the directors' report and, as described on page 7, 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 as at 31 December 2002 and of its profit 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 Salisbury Square
London
EC4Y 8BB

20 February 2003

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 £'000	2001 £'000
INVESTMENT INCOME	2	7,198	1
		<hr/>	<hr/>
GROSS PROFIT		7,198	1
Administrative expenses		(214)	-
		<hr/>	<hr/>
OPERATING PROFIT		6,984	1
Interest receivable and similar income	3	26	259
Interest payable and similar charges	4	(417)	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6,593	260
Tax on profit on ordinary activities	6	(125)	(78)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,468	182
		<hr/>	<hr/>
Dividend paid		(343)	-
		<hr/>	<hr/>
Retained profit	7,12	6,125	182
		<hr/>	<hr/>

A statement of the movement on reserves is shown in Note 7 to the financial statements on page 13.

The above results relate to continuing operations.

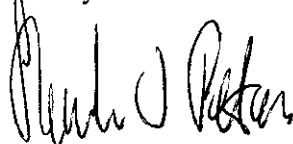
The company had no recognised gains or losses other than the profit for the financial years shown above.

The notes on pages 11 to 15 form part of these financial statements.

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
BALANCE SHEET AS AT 31 DECEMBER 2002

		2002	2001
	Note	£'000	£'000
FIXED ASSETS			
Investments	8	224,892	-
CURRENT ASSETS			
Debtors amounts falling due:	9		
within one year		840	-
after one year		1,034	1,939
Cash at bank and in hand		-	11
		<u>1,874</u>	<u>1,950</u>
CREDITORS: amounts falling due			
within one year	10	<u>(100)</u>	<u>(78)</u>
NET CURRENT ASSETS		1,774	1,872
NET ASSETS		<u>226,666</u>	<u>1,872</u>
CAPITAL AND RESERVES	11		
Called up equity share capital		219,630	960
Share premium account		854	854
Profit and loss account		6,182	57
EQUITY SHAREHOLDERS' FUNDS		<u>226,666</u>	<u>1,872</u>

These financial statements were approved by the Board of Directors on 17th February 2003 and were signed on its behalf by



Director

The notes on pages 11 to 15 form part of these financial statements.

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention.

The financial statements have been prepared on a going concern basis as the parent undertaking has indicated it will continue to provide financial and other support for the foreseeable future.

1.2 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 a wholly owned subsidiary undertaking, and the consolidated financial statements of Halifax plc, in which the financial statements of the company are included are publicly available.

1.3 INVESTMENTS

Investments are stated in the balance sheet at no more than their recoverable amount.

2. INVESTMENT INCOME

Investment income relates to income distributed by the partnerships based on the Company's respective allocation of partnership profits and accretion of the company's fixed asset investment in the partnership.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £'000	2001 £'000
On loan to other group companies	26	259
	<hr/> 26	<hr/> 259
	<hr/>	<hr/>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONT'D)

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Other charges	417	-
	<hr/> 417	<hr/> -

5. STAFF NUMBERS AND COSTS

The company employed no permanent staff directly. The directors received no remuneration for their services.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
Current Tax:		
UK Corporation tax on profits for the period at a rate of 30%	125	78
	<hr/>	<hr/>

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%) as a result of:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	6,593	260
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	1,978	78
Effects of:		
Accretion in fixed asset investment in partnership	(1,978)	-
Expenses not deductible for tax purposes	125	-
	<hr/>	<hr/>
Current tax charge for the period	125	78
	<hr/>	<hr/>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONT'D)

7. RESERVES

	2002	2001
	£'000	£'000
PROFIT AND LOSS ACCOUNT		
Opening balance	57	(125)
Profit for the financial year	6,125	182
Closing balance	<u>6,182</u>	<u>57</u>

8. INVESTMENTS

	2002	2001
	£'000	£'000
Opening balance	-	-
Initial investment	218,297	-
Accretion of fixed asset investment	6,595	-
Closing balance	<u>224,892</u>	<u>-</u>

As at 31 December 2002, Old Broad Street Investments (Number 2) Limited had invested in the Continental Sovereign Investments Partnership (principal place of business is St. Peter Port, Guernsey) of which Old Broad Street Investments (Number 2) Limited's share of partnership capital was 86.97%. The initial investment in this partnership by Old Broad Street Investments (Number 2) Limited was £218,296,606.

Old Broad Street Investments (Number 2) Limited is exempted from preparing consolidated accounts as it is a wholly owned subsidiary of Halifax plc, a company registered in the United Kingdom. These financial statements present information about Old Broad Street Investments (Number 2) Limited as an individual undertaking and not about its group.

9. DEBTORS

	2002	2001
	£'000	£'000
Debtors falling due within one year:		
Amounts due from other group companies	172	-
Other debtors	668	-
	<u>840</u>	<u>-</u>
Debtors falling due after one year:		
Other debtors	1,034	-
Amounts due from other group companies	-	1,939
	<u>1,874</u>	<u>1,939</u>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONT'D)

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£'000	£'000
Corporation tax	100	78
	<hr/>	<hr/>
	100	78
	<hr/>	<hr/>

11. CALLED UP EQUITY SHARE CAPITAL

	2002	2001
	£	£
Authorised		
1 'A' ordinary shares of 50p each	1	1
5,999,999 ordinary shares of 50p each	2,999,999	2,999,999
300,000,000 redeemable preference shares of £1.00 each	<u>300,000,000</u>	<u>-</u>
Allotted, called up and fully paid		
1 'A' ordinary share of 50p each	1	1
1,920,002 ordinary shares of 50p each	960,001	960,001
218,670,000 redeemable preference shares of £1.00 each	<u>218,670,000</u>	<u>-</u>

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital	Share premium	Profit & Loss A/C	Total
	£'000	£'000	£'000	£'000
At 1 January 2002	960	854	57	1,871
Additions during the year	218,670	-	6,125	224,795
Profit for the year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	219,630	854	6,182	226,666
	<hr/>	<hr/>	<hr/>	<hr/>

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
(FORMERLY PRINCIPAL PORTFOLIOS 4 PLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONT'D)**

13. RELATED PARTY TRANSACTIONS

The company's ultimate parent undertaking is HBOS plc. The consolidated financial statements of this company are publicly available and include all transactions with group members who are related parties of the group. Under the provisions of Financial Reporting Standard No. 8, transactions with related parties of this company have not been disclosed other than as required under Companies Act 1985.

14. PARENT UNDERTAKING

The company's immediate parent undertaking is Halifax plc, with its ultimate parent undertaking being HBOS plc. Copies of HBOS plc Annual Report and Accounts may be obtained from its Head Office at The Mound, Edinburgh, EH1 1YZ.