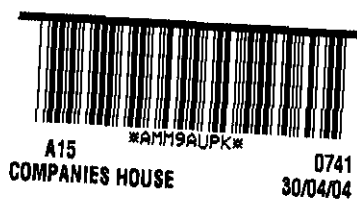


Registered Number 2799756

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 2003



**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
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OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

J M Morrissey
S J Peters
L J Town

SECRETARY

M S Lodge

REGISTERED OFFICE

Level 7
Bishopsgate Exchange
155 Bishopsgate
London
EC2M 3YB

AUDITORS

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

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

The directors present their Report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITY

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

BUSINESS REVIEW

During the year the company continued to act as an investment company.

RESULTS AND DIVIDEND

The results for the year are shown in the profit and loss account on page 9. Interim dividends of £575,742 were paid during the year (2002 – £343,210).

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
DIRECTORS' REPORT (CONT'D)**

DIRECTORS AND DIRECTORS' INTERESTS

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

J M Morrissey (appointed on 18th November 2003)
S.J. Peters
J.D.M. Smallwood (resigned on 17th December 2003)
L.J. Town

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

(References to "HBOS plc shares" are to ordinary shares of 25p each in HBOS plc)

During the year, no Director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than in HBOS plc, the ultimate holding company.

The beneficial interests of the Directors and their immediate families in HBOS plc shares are set out below:-

	At 31.12.02 or date of appointment if later	At 31.12.03
M S Lodge	1,004	1,476
J M Morrissey	1,104	689
S J Peters	-	3,582
L J Town	-	-

SHORT-TERM INCENTIVE PLAN – HBOS SCHEME AND FORMER HALIFAX SCHEME

Certain Directors have conditional entitlements to shares arising from the annual incentive plan. Where the annual incentive for any year was taken in shares and these shares are retained in trust for three years, the following shares will also be transferred to the Directors:

	Grant effective from	Shares as at 31.12.03
M S Lodge	March 2002	-
	March 2003	-
J M Morrissey	March 2002	-
	March 2003	-
S J Peters	March 2002	-
	March 2003	610
L J Town	March 2002	-
	March 2003	-

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

LONG-TERM INCENTIVE PLAN – HBOS SCHEME AND FORMER HALIFAX SCHEME

Details of the shares which have been conditionally awarded to Directors under the plans are set out below. The conditions relating to the long-term incentive plan may be found in the HBOS plc Annual Report & Accounts 2003.

	Grant effective from	At 31.12.02 or date of appointment if later	Granted (G) or Lapsed (L) in year	Added as a result of performance	Dividend reinvestment shares	Released in year	At 31.12.03
L J Town	January 2001	-	-	-	-	-	-
	January 2002	5,208	-	-	-	-	5,208
	January 2003	-	6,757	-	-	-	6,757
S J Peters	January 2001	-	-	-	-	-	-
	January 2002	-	-	-	-	-	-
	January 2003	-	-	-	-	-	-
J M Morrissey	January 2001	-	-	-	-	-	-
	January 2002	-	-	-	-	-	-
	January 2003	-	-	-	-	-	-
M S Lodge	January 2001	-	-	-	-	-	-
	January 2002	-	-	-	-	-	-
	January 2003	-	-	-	-	-	-

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2000 grant ended on 31 December 2002 and, in the light of the performance outcome, grants were released at 200% of the conditional award.

LONG-TERM INCENTIVE PLAN

HBOS SCHEME, FORMER BANK OF SCOTLAND SCHEME AND FORMER HALIFAX SCHEME

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions which have now been satisfied. Share options granted under other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below.

	Options outstanding At 31.12.02 or date of appointment	Granted (G)/lapsed (L) or exercised (E) in year	At 31.12.03
M S Lodge	5,078	-	5,078
J M Morrissey	4,487	-	4,487
S J Peters	2,662	3,180 (G)	5,842
L J Town	3,328	3,967 (G)	7,295

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
DIRECTORS' REPORT (cont'd)

SHARESAVE PLAN

Share options granted under these plans are set out below.

	At 31.12.02	Grant (G) lapsed (L) or exercised (E) in year	At 31.12.03
M S Lodge	472	472 (E)/642 (G)	642
J M Morrissey	1,581	-	1,581
S J Peters	2,362	2,362 (E)	-
L J Town	3,142	-	3,142

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%.

By Order of the Board



M S LODGE
SECRETARY

Level 7
Bishopsgate Exchange
155 Bishopsgate
London
EC2M 3YB

18th February 2004

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
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 AUDITORS

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 2003 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

8 Salisbury Square
London
EC4Y 8BB

19 February 2004

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £'000	2002 £'000
INVESTMENT INCOME	2	11,370	7,198
GROSS PROFIT		11,370	7,198
Administrative expenses		-	(214)
OPERATING PROFIT		11,370	6,984
Interest receivable and similar income	3	8	26
Interest payable and similar charges	4	(667)	(417)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,711	6,593
Tax on profit on ordinary activities	6	(246)	(125)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		10,465	6,468
Dividend paid		(576)	(343)
Retained profit	7,12	9,889	6,125

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.

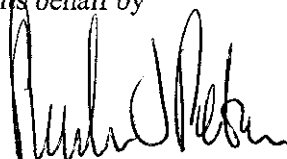
The company had no recognised gains or losses other than the profit for the financial years shown above.

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

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2003

		2003	2002
	Note	£'000	£'000
FIXED ASSETS			
Investments	8	235,450	224,892
CURRENT ASSETS			
Debtors amounts falling due:	9		
within one year		1,012	840
after one year		351	1,034
		<u>1,363</u>	<u>1,874</u>
CREDITORS: amounts falling due within one year	10	<u>(258)</u>	<u>(100)</u>
NET CURRENT ASSETS		1,105	1,774
NET ASSETS		<u>236,555</u>	<u>226,666</u>
CAPITAL AND RESERVES			
Called up equity share capital	11	219,630	219,630
Share premium account		854	854
Profit and loss account	7,12	16,071	6,182
EQUITY SHAREHOLDERS' FUNDS	12	<u>236,555</u>	<u>226,666</u>

These financial statements were approved by the Board of Directors on 18th February 2004 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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

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 in the value of the company's fixed asset investment in the partnership.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £'000	2002 £'000
On loan to other group companies	8	26
	<hr/>	<hr/>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Other charges	667	417
	<hr/>	<hr/>

5. STAFF NUMBERS AND COSTS

The company employed no permanent staff directly. A recharge is made by the parent undertaking to other group companies to cover the costs of staff seconded to the company, including the cost of directors. The company's audit fee is also covered by this recharge.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
Current Tax:		
UK Corporation tax on profits for the period at a rate of 30%	246	125
	<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:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	10,711	6,593
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	3,213	1,978
Effects of:		
Accretion in the value of the company's fixed asset investment in partnership	(3,167)	(1,978)
Expenses not deductible for tax purposes	200	125
	<hr/>	<hr/>
Current tax charge for the period	246	125
	<hr/>	<hr/>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

7. RESERVES

	2003	2002
	£'000	£'000
PROFIT AND LOSS ACCOUNT		
Opening balance	6,182	57
Profit for the financial year	9,889	6,125
	<hr/>	<hr/>
Closing balance	16,071	6,182
	<hr/>	<hr/>

8. INVESTMENTS

	2003	2002
	£'000	£'000
Opening balance	224,892	-
Initial investment	-	218,297
Accretion in the value of the company's fixed asset investment	10,558	6,595
	<hr/>	<hr/>
Closing balance	235,450	224,892
	<hr/>	<hr/>

As at 31 December 2003, Old Broad Street Investments (Number 2) Limited held an investment in the Continental Sovereign Investments Partnership (principal place of business is St. Peter Port, Guernsey).

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

	2003	2002
	£'000	£'000
Debtors falling due within one year:		
Amounts due from other group companies	342	172
Other debtors	670	668
	<hr/>	<hr/>
	1,012	840
Debtors falling due after one year:		
Other debtors	351	1,034
	<hr/>	<hr/>
	1,363	1,874
	<hr/>	<hr/>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000	2002 £'000
Corporation tax	258	100
	<hr/>	<hr/>
	258	100
	<hr/>	<hr/>

11. CALLED UP EQUITY SHARE CAPITAL

	2003 £	2002 £
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>300,000,000</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>218,670,000</u>

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital	Share premium	Profit & Loss A/C	Total
	£'000	£'000	£'000	£'000
At 1 January 2003	219,630	854	6,182	226,666
Additions during the year	-	-	-	-
Profit for the year	-	-	9,889	9,889
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>219,630</u>	<u>854</u>	<u>16,071</u>	<u>236,555</u>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 (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.