

UBERIOR INVESTMENTS PLC

REPORT AND ACCOUNTS

For the year ended 31 December 2003

COMPANY NUMBER 73998



REPORT OF THE DIRECTORS

Directors

G E Mitchell (Chairman)	E J Morrison
P J Cummings	I Robertson
H C McMillan	M Wooderson
A L Webster	T A Abraham

The Directors submit their report and audited accounts of the Company for the year ended 31 December 2003.

Principal activities

The Company operates as an investment holding company and there has been no change in that activity during the year.

Results and review of operations

The Company made a profit before tax for the year to 31 December 2003 of £34,491,239 (2002 - £16,827,436).

After taxation, the profit for the year to 31 December 2003 amounted to £33,622,221 (2002 - £12,697,918). Interim dividends were paid in the year amounting to £13,275,000 (2002- £3,000,000). The Directors do not recommend payment of a final dividend (2002 - £nil).

The Directors consider the Company's position and results for the year to be satisfactory.

The Company continued to expand its investment interests. The Company has now committed to invest funds in 95 (2002 - 91) venture capital funds. In addition the Company has invested in several new associate companies and joint ventures including Roxburgh Investments Limited and Rentsmart Limited.

Suppliers Payment Policy and Practice

Due to the nature of the Company's activities there are no significant suppliers. Where applicable the Company's policy for payment of suppliers is as follows:

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 have been 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.

The number of days credit taken at 31 December 2003 was 30 days (31 December 2002 - 30 days).

REPORT OF THE DIRECTORS (continued)

Directors and their interests

The Directors at the date of this report are as stated above.

Dates of appointment and resignation were as follows:

A L Webster appointed 16 January 2004

T A Abraham appointed 16 January 2004

The other Directors served throughout the year.

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.

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

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

	<u>At 31.12.02</u> <u>or date of appointment if later</u> <u>HBOS plc shares</u>	<u>At 31.12.03</u> <u>HBOS plc shares</u>
P J Cummings	29,855	32,849
H C McMillan	67,159	73,157
G E Mitchell	48,092	72,622
E J Morrison	26,710	36,679
I Robertson	16,171	19,499
M Wooderson	8,461	15,224

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)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.

	<u>Grant effective from</u>	<u>Shares as at 31.12.03</u>
P J Cummings	March 2002	971
	March 2003	998
H C McMillan	March 2002	1,165
	March 2003	2,662
G E Mitchell	March 2002	7,017
	March 2003	11,944
E J Morrison	March 2002	2,331
	March 2003	4,306
I Robertson	March 2002	3,108
	March 2003	1,664
M Wooderson	March 2002	1,943
	March 2003	3,328

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)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.

	<u>Grant effective from</u>	<u>At 31.12.02 or date of appointment if later</u>	<u>Granted (G) or lapsed (L) in year</u>	<u>At 31.12.03</u>
P J Cummings	January 2002	13,333		13,333
	January 2003		18,750 (G)	18,750
H C McMillan	January 2002	9,894		9,894
	January 2003		15,625 (G)	15,625
G E Mitchell	January 2002	56,250		56,250
	January 2003		76,562 (G)	76,562
E J Morrison	January 2002	12,500		12,500
	January 2003		16,171 (G)	16,171
I Robertson	January 2002	13,333		13,333
	January 2003		17,708 (G)	17,708
M Wooderson	January 2002	13,333		13,333
	January 2003		17,708 (G)	17,708

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.

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)Long-term Incentive PlanHBOS 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.

	<u>Options outstanding At 31.12.02 or date of appointment</u>	<u>Granted (G), lapsed (L) or exercised (E) in year</u>	<u>At 31.12.03</u>
P J Cummings	53,000	-	53,000
H C McMillan	60,800	-	60,800
G E Mitchell	220,000	-	220,000
E J Morrison	41,500	-	41,500
I Robertson	63,500	-	63,500
M Wooderson	35,000	-	35,000

Sharesave Plan

Share options granted under these plans are set out below.

	<u>At 31.12.02</u>	<u>Grant (G) lapsed (L) or exercised (E) in year</u>	<u>At 31.12.03</u>
P J Cummings	4,339	1,384 (E)	2,955
H C McMillan	3,118	452 (G) 601 (E)	2,969
G E Mitchell	1,723	-	1,723
E J Morrison	3,167	762 (G)	3,929
I Robertson	1,581	-	1,581
M Wooderson	3,571	-	3,571

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

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)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 2003 were as follows:

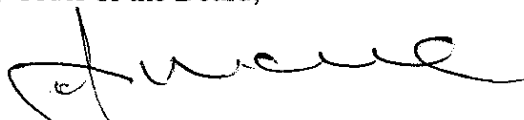
	<u>At 31.12.02</u>	<u>Grant (G) lapsed (L) or exercised (E) in year</u>	<u>At 31.12.03</u>
H C McMillan	3,461	-	3,461

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

Auditors

A resolution proposing the re-appointment of KPMG Audit Plc will be put to the forthcoming Annual General Meeting.

By Order of the Board,


A I Macrae
Secretary.

20 February 2004

Registered Office
Bank of Scotland,
New Uberior House,
11 Earl Grey Street,
Edinburgh.
EH3 9BN

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

	<u>Notes</u>	<u>2003</u> £	<u>2002</u> £
Income from investments in subsidiary undertakings		20,376,708	6,905,470
Income from other fixed asset investments	2	14,735,841	12,153,243
Gains on disposal of investments		26,092,267	15,855,660
Amounts written off fixed asset investments	7	(15,258,707)	(11,260,999)
Fee Income		10,750	5,000
Interest receivable		77,791	17,020
Interest payable	3	(6,972,819)	(4,136,862)
Other operating expenses	4	<u>(4,570,592)</u>	<u>(2,711,096)</u>
Profit on ordinary activities before taxation		34,491,239	16,827,436
Taxation	5	<u>(869,018)</u>	<u>(4,129,518)</u>
Profit on ordinary activities after taxation		33,622,221	12,697,918
Ordinary dividend – paid		<u>(13,275,000)</u>	<u>(3,000,000)</u>
Retained profit for the year		20,347,221	9,697,918
Profit and loss account at 1 January 2003		15,328,496	5,630,578
Profit and loss account at 31 December 2003		<u><u>35,675,717</u></u>	<u><u>15,328,496</u></u>

All gains and losses arising during the year have been recognised in the profit and loss account and derive from continuing operations of the Company.

The notes on pages 9 to 16 form part of these accounts


BALANCE SHEET

As at 31 December 2003

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
		£	£
<u>Fixed Assets</u>			
Investments in subsidiary undertakings	6	149,571,791	169,689,610
Listed investments	7	25,580,791	34,074,307
Unlisted investments	7	891,273,573	546,911,932
		<u>1,066,426,155</u>	<u>750,675,849</u>
<u>Current Assets</u>			
Amount due from group undertakings		45,769,815	22,148,525
Other debtors and accrued income		2,412,619	-
		<u>48,182,434</u>	<u>22,148,525</u>
<u>Creditors: amounts falling due within one year</u>			
Amount due to parent undertaking		(727,987,283)	(738,844,863)
Amounts due to subsidiary undertakings		(453,111)	(8,806,180)
Accruals and other creditors		(4,680,941)	(913,829)
Corporation tax		(3,501,996)	(3,386,006)
		<u>(736,623,331)</u>	<u>(751,950,878)</u>
<u>Net Current Liabilities</u>		<u>(688,440,897)</u>	<u>(729,802,353)</u>
<u>Total Assets less Current Liabilities</u>		<u>377,985,258</u>	<u>20,873,496</u>
<u>Creditors: amounts falling due outwith one year</u>			
Amount due to parent undertaking		(303,492,342)	
Other Provisions	9	(3,545,000)	(3,545,000)
Deferred Tax	8	(33,272,199)	-
<u>Net Assets</u>		<u>37,675,717</u>	<u>17,328,496</u>
<u>Share Capital and Reserves</u>			
Share capital	10	2,000,000	2,000,000
Profit and loss account		35,675,717	15,328,496
<u>Equity Shareholders' Funds</u>	11	<u>37,675,717</u>	<u>17,328,496</u>

Approved by the board at a meeting on 20 February 2004 and signed on its behalf by:


.....Director


.....Director

The notes on pages 9 to 16 form part of these accounts

NOTES TO THE ACCOUNTS

1. Accounting Policies

1.1 Accounting Convention

The accounts have been prepared on a going concern basis under the historical cost convention. The accounts have been prepared in accordance with applicable accounting standards and pronouncements of the Urgent Issues Task Force ("UITF"). Accounting policies are reviewed regularly to ensure they are the most appropriate to the circumstances of the company for the purposes of giving a true and fair view.

The accounts have been prepared on a going concern basis because facilities are currently made available by the immediate parent company which are sufficient to meet the Company's obligations as they fall due.

1.2 Investments

Debt Securities

Debt securities and other fixed interest securities held for the longer term are included at cost less amounts written off. Gains or losses on realisation are recorded in net operating income as they arise.

Equity Shares

Equity shares held for investment are stated at cost less amounts written off. Income from listed equity shares is credited to other operating income on the ex-dividend date and from unlisted equity shares on an equivalent basis.

1.3 Management Fees

Management fees are capitalised during the investment phase of the Fund and then amortised over 3 years, commencing once the Fund has reached its 3rd anniversary (ie in years 4,5 & 6 of a Fund's life) and subject to the Fund having generated income by that date. The amount to be amortised in the Fund's 4th year is the lower of 33% of fees capitalised to date or total income to date, with the cumulative amount increasing to 66% of fees in the 5th year and 100% in the 6th.

Where a fund which had its amortisation restricted due to insufficient income subsequently generates income, the income may be amortised during the year by way of amortisation "catch up".

Where a Fund has generated insufficient income to enable fees to be written off according to the above formula, the value of the Fund will be reviewed to ensure that there is sufficient value to support the amount of fees capitalised to date.

NOTES TO THE ACCOUNTS (continued)

2. Income from investments

	2003			2002		
	Listed £	Unlisted £	Total £	Listed £	Unlisted £	Total £
Shares	596,239	5,716,329	6,312,568	793,389	7,756,827	8,550,216
Others	-	8,423,273	8,423,273	-	3,603,027	3,603,027
	<u>596,239</u>	<u>14,139,602</u>	<u>14,735,841</u>	<u>793,389</u>	<u>11,359,854</u>	<u>12,153,243</u>

3. Interest payable

	<u>2003</u> £	<u>2002</u> £
Interest payable to group undertakings	<u>6,972,819</u>	<u>4,136,862</u>

4. Other operating expenses

	<u>2003</u> £	<u>2002</u> £
Other operating expenses include :		
Management fees (note 7)	4,491,980	2,805,640
Audit fees	5,000	5,000
Other operating expenses/(income)	73,612	(99,544)
	<u>4,570,592</u>	<u>2,711,096</u>

The Company has no employees and none of the Directors receives any emoluments from the Company.

NOTES TO THE ACCOUNTS (continued)

5. <u>Taxation</u>	<u>2003</u> <u>£</u>	<u>2002</u> <u>£</u>
<u>Tax on Ordinary Activities</u>		
<u>Current Tax:</u>		
Corporation tax charge for the year at a rate of 30% (2002: 30%)	6,562,604	3,562,761
Corporation tax (credit)/charge in respect of earlier years	(3,073,543)	566,757
	<u>3,489,061</u>	<u>4,129,518</u>
<u>Deferred Tax:</u>		
Deferred tax (credit) for the year at a rate of 30% (2002 30%)	(1,874,243)	-
Deferred tax (credit) in respect of earlier years	(745,800)	-
	<u>(2,620,043)</u>	<u>-</u>
	<u>869,018</u>	<u>4,129,518</u>

Factors Affecting the Current Tax Charge for the
Year:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%
The differences are explained below:

Profit on ordinary activities before taxation	<u>34,491,239</u>	<u>16,827,436</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	10,347,372	5,048,231
Effects of:		
Write down of investments not yet crystallised	1,874,243	-
Income not chargeable for corporation tax purposes	(7,961,660)	(4,624,576)
Book gains covered by capital losses/indexation	(700,737)	(89,193)
Amounts written off fixed asset investments	3,003,386	3,228,300
Adjustments to tax in respect of previous years	(3,073,543)	566,756
Current corporation tax charge for the year	<u>3,489,061</u>	<u>4,129,518</u>

NOTES TO THE ACCOUNTS (continued)

6. <u>Investments in subsidiary undertakings</u>	<u>2003</u>
	<u>£</u>
At cost as at 1 January 2003	169,689,610
Additions in the year	132,708,771
Transfers in the year	(90)
Disposals in the year	(152,826,500)
At cost as at 31 December 2003	<u>149,571,791</u>

Details of the subsidiary undertakings, all of which are incorporated in the UK, are noted below: -

<u>Name of Company</u>	<u>Principal Business</u>	<u>% of Ordinary Shares Held</u>
Above Bar (Southampton) Ltd	Property Letting	100
Bank of Scotland Insurance Services Ltd	Insurance Broking	100
Bosint Investments Limited	Investment	100
BOS Capital Funding LP	Debt Issuance	100
BOS (Shared Appreciation Mortgages) No.1 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No.2 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No. 3 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No. 4 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No. 5 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No. 6 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages (Scotland)) Limited	Mortgage Lending	100
BOS (Shared Appreciation Mortgages (Scotland)) No. 2 Limited	Mortgage Lending	100
BOS (Shared Appreciation Mortgages (Scotland)) No. 3 Limited	Mortgage Lending	100
First Welsh General Investment Trust Limited	Investment	100
HBOS Capital Funding LP	Debt Issuance	100
Uberior Equity Limited	Investment	100
Uberior Infrastructure Investments Ltd	Investment	100
Uberior Properties (2002) Limited	Property Letting	100
Uberior Ventures Limited	Investment	100
33 Old Broad Street (Jersey) Limited		N/A
Tantallon Investments Inc		N/A

NOTES TO THE ACCOUNTS (continued)

6. Investments in subsidiary undertakings (continued)

Group accounts are not submitted, as the Company is exempt under Section 228 Companies Act 1985 since it is a wholly owned subsidiary of another body corporate which is incorporated in the United Kingdom.

The value of the investments in the subsidiary undertakings, in the view of the Directors, is not less than the amount at which they are stated in the accounts.

7. Investments

	Listed	Unlisted		
	Investments	Shares	Other Investments	Total Unlisted Investments
	£	£	£	£
As at 1 January 2003	34,074,307	117,897,477	429,014,455	546,911,932
Reclassification of investment	-	(26,250,000)	26,250,000	-
Additions	-	98,071,630	143,344,602	241,416,232
Amounts written off	(1,500,000)	(3,747,422)	(10,011,285)	(13,758,707)
Capitalised Management Fees amortised (note 4)	-	-	(4,491,980)	(4,491,980)
Transfers (to) / from other Group companies	(1,967,009)	(8,005,308)	176,524,497	168,519,189
Disposals	(5,026,507)	(9,282,997)	(38,040,096)	(47,323,093)
As at 31 December 2003	<u>25,580,791</u>	<u>168,683,380</u>	<u>722,590,193</u>	<u>891,273,573</u>

Market value of listed investments amounted to £16,797,792 (Dec 2002: £21,339,119). The listed investments are listed on the London Stock Exchange. The cumulative amount written off the cost of unlisted investments is £28,321,443 (Dec 2002: £14,562,736) and the cumulative amount written off listed investments is £1,500,000 (Dec 2002 £nil).

NOTES TO THE ACCOUNTS (continued)

7. Investments (continued)

The principal related company investments, which are unlisted are:

<u>Registered in UK</u>	<u>Class of Shares</u>	<u>Proportion of Class Held</u> %	<u>Principal Area Of Operations</u>
Ancient Mariner Properties Limited	£1 'B' Ordinary Shares	50	Property Investment
Chester Meadow Holdings Limited	£1 'A' Ordinary Shares	40	Property Investment
Highland Property Assets	£1 'B' Ordinary Shares	25	Mixed Property Interests
PPG Metro Ltd	£1 'A' Ordinary Shares	47.5	Property Investment
Rosyth Regeneration Ltd	Ordinary Shares	20	Property Investment
Southside Capital	Ordinary Shares	30	Property Investment

The above information is given only in respect of the undertakings whose results or financial position principally affects the figures in the accounts.

8. Deferred Tax

	£
Deferred tax liability at 1 January 2003	0
Liability transferred into the Company	35,892,242
Current year Profit and Loss credit	(1,874,243)
Prior year credit	(745,800)
Deferred tax liability at 31 December 2003	<u>33,272,199</u>
Deferred taxation comprises	
Write down of investment not yet crystallised.	(2,620,043)
Liability on investment transferred into company	35,892,242
Deferred tax liability	<u>33,272,199</u>

NOTES TO THE ACCOUNTS (continued)

9. Other Provisions

	<u>£</u>
Provision at 1 January 2003 and at 31 December 2003	<u>3,545,000</u>

The provision at 31 December 2003 represents a general provision against investments and undrawn commitments.

10. Share capital

	<u>2003</u> <u>£</u>	<u>2002</u> <u>£</u>
Authorised		
100 million ordinary shares of £1	<u>100,000,000</u>	<u>100,000,000</u>
Allotted, called up and fully paid		
2 million ordinary shares of £1	<u>2,000,000</u>	<u>2,000,000</u>

11. Movement in Equity Shareholders' Funds

	<u>2003</u> <u>£</u>	<u>2002</u> <u>£</u>
Profit after taxation for the year	33,622,221	12,697,918
Dividends	(13,275,000)	(3,000,000)
Net movement in Equity Shareholders' Funds	<u>20,347,221</u>	<u>9,697,918</u>
Equity Shareholders' Funds at 1 January 2003	17,328,496	7,630,578
Equity Shareholders' Funds at 31 December 2003	<u>37,675,717</u>	<u>17,328,496</u>

12. Other contingent liabilities

The company has committed £978.1 million (2002 - £888.1 million) as a limited partner in venture capital funds of which £472.2 million (2002 - £509.1 million) is undrawn.

13. Cash flow statement

The Company has taken advantage of the exemption available under Financial Reporting Standard 1 not to prepare a cash flow statement as it is over 90% owned by the HBOS plc group.

NOTES TO THE ACCOUNTS (continued)

14. Related party transactions

The Company has taken advantage of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with related parties that are part of the HBOS plc group.

15. Parent undertakings

The Company's parent undertaking is The Governor and Company of the Bank of Scotland, incorporated by Act of the Scottish Parliament in 1695, and its ultimate parent undertaking is HBOS plc. The Company is included in the group accounts of HBOS plc and copies of its Annual Report and Accounts may be obtained from its Head Office at The Mound, Edinburgh, EH1 1YZ.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company Law requires the directors to prepare accounts 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 for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts 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 accounts 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
UBERIOR INVESTMENTS PLC**

We have audited the accounts on pages 7 to 16.

This 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 17, the accounts 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 accounts 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 accounts, 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts 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 the accounts have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

20 February 2004