UBERIOR INVESTMENTS PLC

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Company Number SC073998

Directors

R L Adam
K M Bothwell
S A Campbell
P J Cummings
H C McMillan
I Robertson
G R A Shankland
A L Webster

Secretary

A I Macrae

Registered Office

Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
EDINBURGH
EH1 2EG

Bankers

Bank of Scotland
Head Office
The Mound
EDINBURGH
EH1 1YZ

REPORT OF THE DIRECTORS

Directors

R L Adam	H C McMillan
K M Bothwell	I Robertson
S A Campbell	G R A Shankland
P J Cummings	A L Webster

The Directors submit their report and audited accounts of the Company for the year ended 31 December 2006

Incorporation

The Company was incorporated on 27 February 1981

Principal Activity

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

Business Review

During the year the Company continued to manage investments acquired in previous years In addition, new investments identified as having the potential to generate significant returns were acquired and managed by the Company

The business is funded by the Company's immediate parent undertaking

Risk Management

The key risks and uncertainties faced by the Company are managed within the framework established for the HBOS group ('the group') Exposure to credit risk, interest rate risk and foreign exchange risk arises in the normal course of the Company's business These risks are discussed below The Company is funded by its intermediate parent undertaking and as a result liquidity risk is managed within the HBOS group

Credit risk
The Company undertakes a full credit assessment of the financial strength of each potential transaction and/or customer, awarding an internal risk rating Internal ratings are reviewed regularly

Interest rate risk
In relation to income earning financial assets and interest bearing financial liabilities, the Company does not have any significant interest rate exposure

Loans and receivables investments which are interest earning have fixed interest rates The financial liabilities which fund these investments are facilities provided by another HBOS group company which bears the interest rate risk arising Consequently the company does not have any significant exposure to interest rate risk

Foreign exchange risk
Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling The Company follows HBOS plc group policy in ensuring that all foreign currency investments are matched with borrowings in the same currency The currencies which give rise to the Company's foreign exchange risk are US Dollars, Euros, Swiss Francs and New Zealand Dollars

REPORT OF THE DIRECTORS (continued)

Business review (continued)

Performance

The Company's profit before tax for the financial year is £323,111,000 (2005 £314,010,000) This represents an increase in profit before tax of 3%

In 2006 the Company has assessed the requirement for specific provisions In 2005 £59,201,000 was charged to the Income Statement while this year a charge of £19,896,000 has been incurred This reduction has resulted from an improvement in the underlying performance of investments

In addition, this year saw a higher volume of disposals of investments resulting in profits on disposal of £234,174,000 being recognised in the Income Statement This compares to £166,459,000 of profits on disposal recognised last year The Company aims to hold each investment for the appropriate time period which will maximise returns to the HBOS group and therefore profits recognised on disposals can fluctuate year on year

The Balance Sheet total assets have risen to £1,310,472,000 in 2006 compared to £1,196,598,000 in 2005 This increase is mainly due to net acquisitions of equity shares £10,280,000 and the acquisition of a subsidiary entity in which £174,285,000 has been invested This has been offset against a net reduction in unlisted debt of £96,865,000

The key performance indicator used in assessing the performance of the Company is monitoring of rolling valuations of each investment At selected Board meetings the Directors review the performance of the Company's investments on both an individual and an industry sector basis

Future Developments

The Company remains committed to the business of holding investments and will continue to manage new and existing investments in the future

Results and Dividends

The profit after tax for the Company for the year ended 31 December 2006 was £277,006,000 (2005 £309,240,000) An interim dividend of £290,000,000 was paid in June (2005 £135,650,000)

Directors and their interests

The Directors at the date of this report are as stated on page 1

Dates of appointment and resignation during the year were as follows

Director	Date of Appointment	Date of Resignation
M Wooderson		20th February 2006
E J Morrison		22nd September 2006
L J Town	2nd February 2006	22nd September 2006
T A Abraham		22nd September 2006
G R A Shankland	2nd February 2006	
K M Bothwell	22nd September 2006	
S A Campbell	18th October 2006	
R L Adam	3rd November 2006	

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)

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 05 or date of appointment if later HBOS plc shares	At 31 12 06 HBOS plc shares
R L Adam	16,689	16,689
K M Bothwell	17,998	17,016
S A Campbell	12,210	12,210
P J Cummings	71,097	103,674
H C McMillan	110,321	140,411
I Robertson	64,573	84,658
G R A Shankland	38,223	38,223
A L Webster	100,075	134,463

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

	Grant effective from	Shares as at 31.12 06
R L Adam	March 2004	814
	March 2005	739
	March 2006	651
K M Bothwell	March 2004	1,775
	March 2005	1,485
	March 2006	1,495
S A Campbell	March 2004	1,640
	March 2005	1,240
	March 2006	
P J Cummings	March 2004	951
	March 2005	2,702
	March 2006	3,788
H C McMillan	March 2004	2,605
	March 2005	4,145
	March 2006	3,515
I Robertson	March 2004	1,603
	March 2005	5,669
	March 2006	3,332
G R A Shankland	March 2004	2,322
	March 2005	4,254
	March 2006	4,487
A L Webster	March 2004	2,525
	March 2005	5,673
	March 2006	4,128

REPORT OF THE DIRECTORS (contınued)

Dırectors and theır ınterests (contınued)

Long term Incentıve Plan – HBOS scheme and former Halıfax scheme

Detaıls of the shares whıch have been condıtıonally awarded to Dırectors under the plans are set out below The condıtıons relatıng to the long term ıncentıve plan may be found ın the HBOS plc Annual Report & Accounts 2006

	Grant effectıve from	At 31 12 05 or date of appoıntment ıf later	Granted (G) or lapsed (L) ın year	Dıvıdend reınvestment shares	Added as a result of performance	Released ın year	At 31 12 06
P J Cummıngs	January 2003	18,750					18,750
	January 2004	27,894					27,894
	January 2005	23,809					23,809
	January 2006		51,203 (G)				51,203
H C McMıllan	January 2003	15,625		2,425	14,981	(33,031)	
	January 2004	21,385					21,385
	January 2005	18,253					18,253
	January 2006		17,067 (G)				17,067
I Robertson	January 2003	17,708		2,748	16,978	(37,434)	
	January 2004	25,104					25,104
	January 2005	21,428					21,428
	January 2006		20,481 (G)				20,481
G R A Shankland	January 2003	6,640		1,030	6,366	(14,036)	
	January 2004	6,973					6,973
	January 2005	10,168					10,168
	January 2006		17,067 (G)				17,067
A L Webster	January 2003	17,708		2,748	16,978	(37,434)	
	January 2004	18,596					18,596
	January 2005	15,873					15,873
	January 2006		15,702 (G)				15,702

Shares granted under these plans can crystallıse at any level between 0% and 200% of the condıtıonal award noted ın the above table, dependant upon performance The performance perıod for the January 2003 grant ended on 31 December 2005 and, ın the lıght of the performance outcome, grants were released at 183% of the condıtıonal award On maturıty, dıvıdend reınvestment shares equıvalent to approxımately 15 5% of the orıgınal condıtıonal grant were also released to partıcıpants ın accordance wıth the rules of the plan

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)

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 pre condition Details of the options outstanding under these plans are set out below

	Options outstanding at 31 12 05 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31 12 06
R L Adam	5,371	3,741 (E)	1,630
K M Bothwell	11,789		11,789
S A Campbell	5,246		5,246
P J Cummings	53,000	8,000 (E)	45,000
H C McMillan	52,261	48,800 (E)	3,461
I Robertson	57,000	7,000 (E)	50,000
G R A Shankland	18,937	7,227 (E)	11,710
A L Webster	26,000		26,000

Sharesave Plan

Share options granted under these plans are set out below

	At 31 12 05 or date of appointment	Granted (G) lapsed (L) or exercised (E) in year	At 31 12 06
R L Adam	2,764	346 (G)	3,110
K M Bothwell	1,755	715 (G) 1,090 (E)	1,380
S A Campbell	3,002		3,002
P J Cummings	1,792	238 (G) 1,214 (E)	816
H C McMillan	2,555	585 (E)	1,970
I Robertson	2,933	1,581 (E)	1,352
G R A Shankland	5,259	319 (G)	5,578
A L Webster	4,277	993 (G)	5,270

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)

Supplier Payment policy

It is the Company's policy that payments made to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers

Going Concern

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 accounts

The Company has received a letter of support from the Bank of Scotland that confirms that it will provide sufficient funds or other financial support to enable the Company to continue in business for the next year

Audit information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they each are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Company Secretary

A I Macrae

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

19 February 2007

Registered Office
Bank of Scotland
Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Income Statement

For the year ended 31 December 2006

	Note	2006 £'000s	2005 £'000s
Income from investments in subsidiaries		73,256	94,935
Valuation gains on investments		24,645	
Investment income	2	41,594	145,370
		139,495	240,305
Profit on disposal of investments		234,174	166,459
Amounts written off investments	9	(19,896)	(59,201)
Administrative expenses	3	(5,406)	(8,481)
Other income	4	856	131
Other expenses	5	(1,952)	(542)
Net other expenses		(1,096)	(411)
Operating profit before financing costs		347,271	338,671
Financial expenses	6	(24,160)	(24,661)
Profit before tax		323,111	314,010
Income tax charge	7	(46,105)	(4,770)
Profit after tax for the year		277,006	309,240
Attributable to:			
Equity holders		277,006	309,240
Profit for the year		277,006	309,240

The notes on pages 13 to 26 form part of these accounts

Statement of Recognised Income and Expense

For the year ended 31 December 2006

	Note	**2006 £'000s**	**2005 £'000s**
Change in fair value of equity securities available for sale	*15*	27,292	4,793
Profit for the year		277,006	309,240
Total recognised income and expense for the year		304,298	314,033
Attributable to:			
Equity holders		304,298	314,033
Profit for the year		304,298	314,033

The notes on pages 13 to 26 form part of these accounts

Balance Sheet

As at 31 December 2006

	Note	2006 £'000s	2005 £'000s
Assets			
Investments	9	983,749	1,037,629
Interests in associates	11	12,593	18,243
Interests in jointly controlled entities	12	9,811	22,663
Investments in subsidiary undertakings	10	23,959	25,056
Investments in subsidiary undertakings held for sale	10	174,285	
Total non current assets		1,204,397	1,103,591
Income tax receivable	8		555
Trade and other receivables	18	17,216	21,934
Cash and cash equivalents	14	77,227	29,041
Due by related undertakings		11,632	41,477
Total current assets		106,075	93,007
Total assets		**1,310,472**	1,196,598
Equity			
Issued capital		2,000	2,000
Reserves		112,986	85,694
Retained earnings		281,320	294,314
Total equity	15	396,306	382,008
Liabilities			
Interest bearing loans and borrowings	17	402,596	452,095
Deferred tax liabilities	13	86,326	63,309
Total non current liabilities		488,922	515,404
Bank overdrafts	14	168,353	167,378
Interest bearing loans and borrowings	17	97,588	97,058
Due to related undertakings		2,305	1,856
Trade and other payables	19	99,310	32,894
Income tax payable	8	57,688	
Total current liabilities		425,244	299,186
Total liabilities		914,166	814,590
Total equity and liabilities		**1,310,472**	1,196,598

The notes on pages 13 to 26 form part of these accounts

Approved by the board at a meeting on 19 February 2007 and signed on its behalf by

Director

Statement of Cash Flows

For the year ended 31 December 2006

	Note	2006 £'000s	2005 £'000s
Cash flows from operating activities			
Operating profit		347,271	338,671
Amounts written off investments		19,896	59,201
Acquisition of investments and interests		(229,563)	(293,682)
Disposal of investments and interests		316,115	256,232
Increase in amounts due to related undertakings		449	841
Decrease in amounts due by related undertakings		29,845	3,657
Exchange rate movement		472	236
Fair value gains through income statement		(24,645)	
Decrease/(Increase) in trade & other receivables		426	(18,645)
Increase in trade & other payables		60,121	10,816
Cash generated from operations		520,387	357,327
Interest paid		(17,865)	(19,275)
Income taxes received/(paid)		23,458	(28,246)
Net cash from operating activities		525,980	309,806
Cash flows from investing activities			
Proceeds from sale of subsidiary undertakings		711	
Acquisition of subsidiary undertakings		(174,828)	(1,196)
Net cash from investing activities		(174,117)	(1,196)
Cash flows from financing activities			
(Decrease)/Increase in borrowings		(13,893)	28,170
Dividends paid		(290,000)	(135,650)
Net cash from financing activities		(303,893)	(107,480)
Net increase in cash and cash equivalents		47,970	201,130
Effect of exchange rate fluctuations on cash held		(759)	450
Cash and cash equivalents at 1 January		(138,337)	(339,917)
Cash and cash equivalents at 31 December	*14*	(91,126)	(138,337)

The notes on pages 13 to 26 form part of these accounts

Notes to the financial statements

1. Significant accounting policies

Uberior Investments Plc (the "Company") is a company domiciled in Scotland

The financial statements were authorised for issue by the directors on 19 February 2007

(a) Statement of compliance

The 2006 statutory financial statements set out on pages 9 to 26 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS')

The standards adopted by the Company are those endorsed by the European Union and effective at the date the IFRS financial statements are approved by the Board

The accounts also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004

(b) Basis of preparation

The financial statements are presented in Sterling and rounded to the nearest thousand They have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair values derivatives, financial instruments held for trading, financial instruments designated at fair value through the income statement, financial instruments classified as available for sale and investment properties

(c) Adopted IFRS not yet applied

IFRS 7 'Financial instruments Disclosure' and the 'Capital disclosure amendment' to IAS 1 'Presentation of financial statements' which are applicable for periods commencing on or after 1 January 2007 have not been applied The application of these standards in 2006 would not have affected the balance sheet, income statement or cash flow statement as they are only concerned with disclosure

(d) Foreign currency

The financial statements are presented in Sterling which is the Company's functional and presentation currency Foreign currency transactions are translated into Sterling at the exchange rate prevailing at the date of the transaction

Exchange gains and losses arising from the translation at balance sheet date exchange rates of monetary assets and liabilities are recognised in the income statement except for differences arising from net investment hedges and derivatives related to cash flow hedges which are recognised directly in equity

(e) Investments

Investments in debt and equity securities

Investment securities held for trading are carried at fair value Gains, losses and related income are taken to net trading income as they arise Investment securities designated at fair value through the income statement are carried at fair value Gains, losses and related income are taken to other operating income as they arise

Debt securities for which there is no active market are classified as loans and receivables, other than those that are held for trading or designated at fair value through the income statement They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at amortised cost using the effective interest method less provision for impairment

All other investment securities are classified as available for sale They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at fair value Unrealised gains or losses are recognised directly in equity in the available for sale reserve, except for impairment losses or foreign exchange gains or losses related to debt securities, which are recognised immediately in the income statement in impairment on investment securities or other operating income respectively Income on debt securities is recognised on an effective interest rate basis where it can be reliably estimated and recognised on a cash basis where it cannot be reliably estimated and taken to interest receivable through the income statement Income from equity shares is credited to other operating income, with income on listed equity shares being credited on the ex dividend date and income on unlisted equity shares being credited on an equivalent basis On sale or maturity, previously unrealised gains and losses are recognised in other operating income

Notes to the financial statements (cont)

1. Significant accounting policies (cont)

(e) Investments (cont)
Investments in debt and equity securities (cont)

Impairment losses on available for sale equity instruments are not reversed through the income statement Any increase in the fair value of an available for sale equity instrument after an impairment loss has been recognised is treated as a revaluation and recognised directly in equity An impairment loss on an available for sale debt instrument is reversed through the income statement, if there is evidence that the increase in fair value is due to an event that occurred after the impairment loss was recognised

The fair value of investment securities is based on market prices or broker/dealer valuations Where this information is not available, the fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or similar valuation model

The Company uses settlement date accounting when recording the purchase and sale of investment securities, with the exception of those held for trading for which trade date accounting is used

(f) Derivatives
Derivatives are initially recognised at fair value on the date the contract is entered into Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative as a derivative liability The gain or loss on remeasurement to fair value at the balance sheet date is taken to net trading income

Derivative fair values are determined using valuation techniques that are consistent with techniques commonly used by market participants to price these instruments These techniques include discounted cash flow analysis and other pricing models The fair values calculated from these models are regularly compared with prices obtained in actual market transactions to ensure reliability In all material instances these techniques use only observable market data

(g) Subsidiaries
The financial statements of subsidiaries and special purpose entities controlled by the Company are consolidated within the financial statements of the Company's ultimate parent undertaking, HBOS plc, commencing on the date control is obtained until the date control ceases Control is defined as being where the Company has power, directly or indirectly, to govern the financial and operating policies of such entities In assessing control, potential voting rights that presently are exercisable or convertible are taken into account Accordingly, the Company records such investments at historic cost

Where the Company has acquired a subsidiary with a view to subsequent disposal, the subsidiary is held at the lower of cost and fair value less costs of disposal

(h) Associated undertakings and jointly controlled entities

Associated undertakings are entities over which the Company has significant influence, but not control over the financial and operating policies Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control over those policies

Jointly controlled entities are entities over which the Company has joint control under a contractual arrangement with other parties

The attributable share of results of associated undertakings and jointly controlled entities, generally based on audited accounts, are included in the consolidated financial statements of the Company's ultimate parent undertaking, HBOS plc using the equity method of accounting The share of any losses is restricted to a level that reflects an obligation to fund such losses Accordingly the Company records such investments at historic cost

(i) Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses

Notes to the financial statements (cont)

1. Significant accounting policies (cont)

(j) Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short term cash commitments rather than investing or other purposes Cash and cash equivalents consist of cash and balances at central banks that are freely available, loans and advances to banks with a maturity of three months or less excluding financial assets that are held for trading purposes

(k) Impairment

The carrying amounts of the Company's assets, and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

When a decline in the fair value of an available for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs

(ii) Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

(l) Share capital

(i) Dividends

Dividends are recognised in the period in which they are paid

(m) Trade and other payables

Trade and other payables are stated at cost

(n) Expenses

(i) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method Interest income is recognised in the income statement as it accrues, using the effective interest method

Notes to the financial statements (cont)

1. Significant accounting policies (cont)

(o) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity The tax charge is analysed between tax that is payable in respect of policyholder returns and tax that is payable on shareholders' equity returns This allocation is based on an assessment of the effective rate of tax that is applicable to shareholders' equity for the year

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates at the balance sheet date

(p) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis Interest bearing borrowings are derecognised from the balance sheet upon settlement of all monies due in connection with such borrowings or forgiveness by the lender of all indebtedness

Notes to the financial statements (cont)

2. Investment income

	2006 £'000s	2005 £'000s
Income from investment securities available for sale	20,047	120,077
Income from investment securities loans and receivables	16,852	25,293
Redemption premium	4,695	
	41,594	145,370

3. Administrative expenses

	2006 £'000s	2005 £'000s
Management fees	5,406	8,481

4. Other income

	2006 £'000s	2005 £'000s
Interest from HMRC	497	
Other	359	131
	856	131

5. Other expenses

	2006 £'000s	2005 £'000s
Audit Fee	8	7
Other Expenses	1,944	535
	1,952	542

6. Net financing costs

	2006 £'000s	2005 £'000s
Interest expense	24,160	24,661

Notes to the financial statements (cont)

7. Income tax expense

Recognised in the income statement

	2006 £'000s	2005 £'000s
Current tax expense		
Current year	46,880	33,154
Adjustments for prior years	(12,095)	(19,075)
	34,785	14,079
Deferred tax expense		
Deferred tax charge/(credit) for the year at a rate of 30% (2005 30%)	5,783	(9,309)
Deferred tax charge in respect of prior years	5,537	
	11,320	(9,309)
Total income tax charge in income statement	46,105	4,770

Reconciliation of effective tax rate

	2006 £'000s	2005 £'000s
Profit before tax	323,111	314,010
Income tax using the corporation tax rate	96,933	94,203
Non deductible income/expenses not taxable	(27,087)	(60,095)
Book gains covered by capital losses/exempt under SSHE	(22,919)	(18,715)
Amounts written off fixed asset investments	5,735	8,452
Adjustments for prior years	(6,557)	(19,075)
	46,105	4,770

Deferred tax recognised directly in equity

	2006 £'000s	2005 £'000s
Relating to equity securities available for sale	(11,697)	(36,726)

8. Current tax assets and liabilities

The current tax liability of £57,688k (2005 asset £555k) represents the amount of income taxes payable/receivable in respect of current and prior years

Notes to the financial statements (cont)

9. Investments

	Loans and receivables £'000s	Designated at fair value through income statement £'000s	Available for sale £'000s	2006 Total £'000s	2005 Total £'000s
Gross investments					
Listed					
Equity shares			18,883	18,883	25,242
			18,883	18,883	25,242
Unlisted					
Debt securities	327,516			327,516	474,432
Equity shares		43,843	613,403	657,246	596,447
	327,516	43,843	613,403	984,762	1,070,879
Less aggregate amounts written off					
Debt securities	(2,427)			(2,427)	(31,028)
Equity shares			(17,469)	(17,469)	(27,464)
	(2,427)		(17,469)	(19,896)	(58,492)
Total investments	325,089	43,843	614,817	983,749	1,037,629
Comprising					
Debt securities	325,089			325,089	443,404
Equity shares		43,843	614,817	658,660	594,225
	325,089	43,843	614,817	983,749	1,037,629

The movement in investments can be summarised as follows

	Loans and receivables £'000s	Designated at fair value through income statement £'000s	Available for sale £'000s	Total £'000s
At 1 January 2006	443,404		594,225	1,037,629
Exchange translation	(19,135)		(10,434)	(29,569)
Changes to fair value in available for sale investments		24,645	38,989	63,634
Additions	103,747	22,051	122,515	248,313
Disposals	(200,500)	(2,853)	(113,009)	(316,362)
Amounts written off	(2,427)		(17,469)	(19,896)
As at 31 December 2006	325,089	43,843	614,817	983,749

Notes to the financial statements (cont)

10. Investments in subsidiaries

	£'000s
At cost 1 January 2006	25,056
Exchange rate movements	(929)
Additions	543
Disposals	(711)
At cost 31 December 2006	23,959

Investments in subsidiaries held for sale

	£'000s
At cost 1 January 2006	
Additions	174,285
At cost 31 December 2006	174,285

Details of the subsidiary undertakings are noted below

Name of Company	% of Ordinary shares held	Principal business	Reference date	Country of incorporation
Above Bar (Southampton) Limited	100	Property Letting	31 December	UK
BOS Capital Funding LP	100	Debt Issuance	31 December	Jersey
HBOS Capital Funding LP	100	Debt Issuance	31 December	Jersey
Tantallon Investments Inc	100	Investment	31 December	USA
HBOS Capital Funding LP	100	Investment	31 December	Jersey
Uberior Equity Limited	100	Investment	31 December	UK
Uberior Fund Investments Limited	100	Investment	31 December	UK
Uberior Infrastructure Investments Limited	100	Investment	31 December	UK
Uberior Properties (2002) Limited	100	Property Letting	31 December	UK
Uberior Ventures Limited	100	Investment	31 December	UK
BOS PF Holdings Inc	100	Investment	31 December	Jersey
Uberior Frenchgate Limited	100	Investment	31 May	UK
Uberior Integrated Limited	100	Investment	31 December	UK
Uberior ENA Limited	100	Investment	31 December	UK
Bosint Investments Limited	100	Investment	31 December	Jersey
Mother Topco Limited	58 3	Investment	31 August	UK

On 16 July 2006, the Company acquired a 58 3% equity interest in Mother Topco Limited Subsequently, on 13 October 2006, the Mother Topco Limited group of companies acquired 100% of the equity of McCarthy & Stone, a UK provider of retirement homes The assets and liabilities were acquired with a view for subsequent disposal and it is highly probable that this disposal will occur within twelve months of the balance sheet date In accordance with IFRS 5, non current assets held for sale and discontinued assets, the assets and liabilities have been classified as a disposal group in the accounts of the Company's ultimate parent undertaking HBOS plc

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

Notes to the financial statements (cont)

11. Interests in associates

	£'000s
At cost 1 January 2006	18,243
Additions	2,817
Disposals	(8,467)
At cost 31 December 2006	12,593

Details of the Company's individual investments in associates have not been disclosed on a separate basis as they are not considered to be material to the activities of the Company

12. Interests in jointly controlled entities

	£'000s
At cost 1 January 2006	22,663
Disposals	(12,852)
At cost 31 December 2006	9,811

Details of the Company's individual investments in jointly controlled entities have not been disclosed on a separate basis as they are not considered to be material to the activities of the Company

13. *Deferred tax liabilities*

Recognised deferred tax liabilities
Deferred tax liabilities are attributable to the following

	2006 £'000s	2005 £'000s
Other	(30,510)	(26,583)
Available for sale equities	(55,816)	(36,726)
Tax liabilities	(86,326)	(63,309)

Movement in temporary differences in the year

	Balance at 1 Jan 2006 £'000s	Recognised in income £'000s	Recognised in equity £'000s	Balance at 31 Dec 2006 £'000s
Other	(26,583)	(3,927)		(30,510)
Available for sale equities	(36,726)	(7,393)	(11,697)	(55,816)
	(63,309)	(11,320)	(11,697)	(86,326)

Notes to the financial statements (cont)

14. Cash and cash equivalents

	2006 £'000s	2005 £'000s
Bank balances	77,227	29,041
Bank overdrafts	(168,353)	(167,378)
Cash and cash equivalents in the statement of cash flows	(91,126)	(138,337)

15. Capital and reserves

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent	Share capital £'000s	Fair value reserve £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2005	2,000	80,901	120,724	203,625
Total recognised income and expense			309,240	309,240
Dividends to shareholders			(135,650)	(135,650)
Fair value changes on AFS equities		6,847		6,847
Deferred tax on AFS equities		(2,054)		(2,054)
Balance at 31 December 2005	2,000	85,694	294,314	382,008
Balance at 1 January 2006	2,000	85,694	294,314	382,008
Total recognised income and expense			277,006	277,006
Dividends to shareholders			(290,000)	(290,000)
Fair value changes on AFS equities		38,989		38,989
Deferred tax on AFS equities		(11,697)		(11,697)
Balance at 31 December 2006	2,000	112,986	281,320	396,306

Share capital	Ordinary shares 2006 £'000s	Ordinary shares 2005 £'000s
On issue at 1 January and at 31 December – fully paid	2,000	2,000

At 31 December 2006, the authorised share capital comprised 2,000,000 £1 Ordinary Shares (2005 2,000,000)

The holder of the Ordinary Shares is entitled to receive dividends as declared from time to time and is entitled to vote at meetings of the Company

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised

Notes to the financial statements (cont)

16. Dividends

After the balance sheet date the Directors did not propose any further dividends (2005 £nil)

17. Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest bearing loans and borrowings For more information about the Company's exposure to interest rate and foreign currency risk, see notes 20 and 21

	2006 £'000s	2005 £'000s
Non current liabilities		
Unsecured bank loans	402,596	452,095
Current liabilities		
Current portion of unsecured bank loans	97,588	97,058

Terms and debt repayment schedule

The bank loans are unsecured and represent amounts due to the Company's immediate parent undertaking, The Governor and Company of the Bank of Scotland The loans fall due for repayment at various dates between May 2007 and May 2010 Interest is fixed on each loan at the date the loan is advanced to the Company

18. Trade and other receivables

	2006 £'000s	2005 £'000s
Other debtors and accrued income	17,216	21,934

19. Trade and other payables

	2006 £'000s	2005 £'000s
Accruals	18,272	11,855
Creditors	81,038	21,039
	99,310	32,894

20. Financial Instruments

Exposure to credit and interest rate risk arises in the normal course of the Company's business Credit risk and interest rate risk is managed by the Company's ultimate parent undertaking HBOS plc Details of the policies in place can be found in the HBOS plc Annual Report and Accounts

Credit Risk

As part of the credit risk procedures for the Company a full credit assessment of the financial strength of each potential transaction and/or customer will be undertaken and awarded an internal risk rating Internal ratings are reviewed regularly

Interest rate risk

The unsecured bank facility and bank overdraft facilities are provided by another HBOS group company with interest being charged at agreed rates within the Group

Notes to the financial statements (cont)

20. Financial Instruments (cont)

Effective interest rates and repricing analysis
In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice

	Note	Effective Interest rate	Total £'000s	2006 6 months or less £'000s	6 12 months £'000s	1 2 years £'000s	2 5 years £'000s	More than 5 years £'000s
Cash & cash equivalents	14	1 96%	77,227	77,227				
Loans and borrowings	17	4 61%	(500,184)	(70,955)	(26,633)	(241,586)	(161,010)	
Bank overdrafts	14	0 58%	(168,353)	(168,353)				
Total			(591,310)	(162,081)	(26,633)	(241,586)	(161,010)	

21. Foreign currency risk
The Company is exposed to foreign currency risk on investments and borrowings that are denominated in a currency other than Sterling The Company follows HBOS plc group policy in ensuring that all foreign currency investments are matched with borrowings in the same currency The currencies giving rise to this risk are U S Dollars, Euros, Swiss Francs and New Zealand Dollars

22. Fair values
The fair values together with the carrying amounts shown in the balance sheet are as follows

	Note	Carrying amount 2006 £'000s	Fair value 2006 £'000s	Carrying amount 2005 £'000s	Fair value 2005 £'000s
Equity securities available for sale	9	614,817	614,817	594,225	594,225
Equity securities designated at fair value through the income statement	9	43,843	43,843		
Debt securities – loans & receivables	9	325,089	325,089	443,404	443,404
Trade and other receivables	18	17,216	17,216	21,934	21,934
Cash and cash equivalents	14	77,227	77,227	29,041	29,041
Amounts due by subsidiary undertakings		11,632	11,632	41,477	41,477
Unsecured bank facilities	20	(500,184)	(480,995)	(549,153)	(526,434)
Trade and other payables	19	(99,310)	(99,310)	(32,894)	(32,894)
Due to related undertaking		(2,305)	(2,305)	(1,856)	(1,856)
Bank overdrafts	14	(168,353)	(168,353)	(167,378)	(167,378)
		319,672	338,861	378,800	401,519
Unrecognised gains			19,189		22,719

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above

Securities
Fair value of listed securities available for sale is based on quoted market prices at the balance sheet date without any deduction for transaction costs

Fair value of unlisted equity securities available for sale is calculated in accordance with the guidelines set out by the British Venture Capital Association

Trade and other receivables / payables
For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value All other receivables/payables are discounted to determine the fair value

Notes to the financial statements (cont)

23. Capital commitments

The Company has committed £1,177 1 million (2005 £1,027 2 million) as a limited partner in venture capital funds of which £301 4 million (2005 £237 9 million) is undrawn

24. Related parties

The Company's immediate parent undertaking is The Governor and Company of the Bank of Scotland, incorporated by Act of the Scottish Parliament in 1695

A number of related party banking transactions are entered into with The Governor and Company of the Bank of Scotland in the normal course of business including loans and overdrafts The balances due to The Governor and Company of the Bank of Scotland are shown within the notes to the financial statements Details of the related party transactions during the period are disclosed in the table below

Nature of transaction	Outstanding balance at 1 January 2006	Outstanding balance at 31 December 2006	Income/expense included in the income statement for the year ended 31 December 2006	Disclosure in financial statement
	£'000s	£'000s	£'000s	
Bank balance 00161000	19,661 CR	76,997 CR		Cash and cash equivalents
Bank balance 00100605	149,628 DR	150,044 DR		Bank overdraft
Bank balance 00160606	17,750 DR	18,309 DR		Bank overdraft
Bank balance 00949004	1 CR	1 CR		Cash and cash equivalents
Term loans Euro account	249,655 DR	262,773 DR		Interest bearing loans and borrowing
Term loans USD account	77,150 DR	50,214 DR		Interest bearing loans and borrowing
Term loans CHF account	311 DR	237 DR		Interest bearing loans and borrowing
Term loans NZD account	171,960 DR	171,960 DR		Interest bearing loans and borrowing
Term loans	15,000 DR	15,000 DR		Interest bearing loans and borrowing
Bank balance Euro account	5,822 CR			Cash and cash equivalents
Bank balance CHF account	1 CR			Cash and cash equivalents
Bank balance USD account	2,204 CR	229 CR		Cash and cash equivalents
Interest payable			24,160 DR	Financial expense

25. Parent undertakings

HBOS plc is the ultimate parent undertaking of Uberior Investments plc and heads the largest group into which the accounts of the Company are consolidated The consolidated accounts of HBOS plc may be obtained from its Head Office at The Mound, Edinburgh EH1 1YZ

The Governor and Company of the Bank of Scotland heads the smallest group into which the accounts of the Company are consolidated The accounts of The Governor and Company of the Bank of Scotland may be obtained from its Head Office at The Mound, Edinburgh EH1 1YZ

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 company financial statements for each financial year Under that law the directors have elected to prepare the company financial statements in accordance with IFRSs as adopted by the EU

The company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the company and the performance for that period, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

In preparing the company 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 they have been prepared in accordance with IFRSs as adopted by the EU, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report and a Business Review

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR INVESTMENTS PLC

We have audited the financial statements of Uberior Investments plc for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes These financial statements have been prepared under the accounting policies set out therein

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' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 27

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- The financial statements have been properly prepared in accordance with the Companies Act 1985, and
- The information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Edinburgh
27 February 2007