

UBERIOR INVESTMENTS PLC  
REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2008

Company Number SC073998



Directors

K M Bothwell  
S F Livingston  
D Miller  
J C Moran  
C Richards  
G R A Shankland  
A L Webster

Secretary

J E Nielsen

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

K M Bothwell  
S F Livingston  
D Miller  
J C Moran

C Richards  
G R A Shankland  
A L Webster

The Directors submit their report and audited accounts of Uberior Investments plc ("the Company") for the year ended 31 December 2008.

### 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"). Exposures to credit risk, interest rate risk, foreign exchange risk and equity risk arises in the normal course of the Company's business. These risks are discussed below and supplementary qualitative and quantitative information is provided in Note 20 to the financial statements. The Company is funded by its immediate parent undertaking and as a result liquidity risk is managed within the HBOS Group.

#### Credit risk

A full credit assessment of the financial strength of each potential transaction and / or customer is undertaken, 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 currencies giving rise to this risk are US Dollars, Euros and New Zealand Dollars. The Company follows a policy of ensuring that all foreign currency investments are matched with borrowings in the same currency, thus no sensitivity to foreign exchange exposure is considered to exist.

#### Equity risk

Equity risk exists from the Company's exposure to listed and unlisted shares. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is continually monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is set out in Note 20.

**REPORT OF THE DIRECTORS (continued)**Business review (continued)Performance

The Company's loss before tax for the financial year is £80,104,000 (2007: profit - £518,688,000). This represents a reduction in profit before tax of 115%.

In 2008 the Company has assessed the requirement for specific impairments, and a charge of £115,528,000 was charged to the Income Statement (2007: £10,010,000). In addition, this year saw a reduction in volume of disposal of investments resulting in profits of £84,912,000 being recognised in the Income Statement. This compares to £329,755,000 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 fallen to £954,421,000 in 2008 compared to £1,392,848,000 in 2007. This reduction is mainly due to downward valuations of £138,546,000 and impairments of £115,528,000 along with the disposal of debt securities worth £191,372,000. This has been offset against an addition of an associate representing £80,959,000.

The key performance indicator used in assessing the performance of the Company is monitoring 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.

Post Balance Sheet Events

Details of post balance sheet events including the acquisition of HBOS plc by Lloyds TSB Group plc are given in Note 24 to the financial statements.

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 loss after tax for the Company for the year ended 31 December 2008 was £36,616,000 (2007: profit - £448,551,000). Dividends of £350,000,000 were paid during the year (2007: £280,000,000). No final dividend is proposed (2007: £nil).

Directors and their interests

The Directors at the date of this report are as stated on page 2.

Dates of appointments and resignations were as follows:

<u>Director</u>	<u>Date of Appointment</u>	<u>Date of Resignation</u>
R L Adam	-	23/10/2008
S A Campbell	-	29/12/2008
P J Cummings	-	16/03/2009
S F Livingston	01/05/2008	-
H C McMillan	-	01/05/2008
D Miller	01/05/2008	-
J C Moran	01/05/2008	-
C Richards	01/05/2008	-

The other Directors all served throughout the year.

No Director had any interest in any material contract or arrangement with the Company during or at the end of the year.

**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

As set out in the 'Principles underlying Going Concern Assumption' of the Basis of Preparation section of the Notes to the Accounts on page 10 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 financial statements have been prepared on a going concern basis, which assumes the continued support of other Group companies. If this support were not forthcoming the Company would have to reduce the monetary value of assets to recoverable amounts, to provide for further liabilities that might arise and reclassify all assets and liabilities as current assets and liabilities.

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

J E Nielsen remained the Company secretary throughout the year.

By Order of the Board,



Director / Company Secretary

6<sup>th</sup> April 2009

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

**Income Statement****For the year ended 31 December 2008**

	<i>Note</i>	<b>2008 £'000s</b>	<b>2007 £'000s</b>
Income from investments in subsidiaries		4,598	164,035
Valuation (losses) / gains on investments	9	(60,402)	17,957
Investment income	2	30,788	45,871
		<u>(25,016)</u>	<u>227,863</u>
<b>Profit on disposal of investments</b>		<b>84,912</b>	<b>329,755</b>
Amounts written off investments	9	(92,065)	(10,010)
Amounts written off investments in associates	11	(23,463)	-
Administrative expenses	3	(7,695)	(6,202)
Other income	4	10,043	2,549
Other expenses	5	(31)	(133)
<b>Net other income</b>		<u>10,012</u>	<u>2,416</u>
<b>Operating (loss) / profit before financing costs</b>		<u>(53,315)</u>	<u>543,822</u>
Financial expenses	6	(26,789)	(25,134)
<b>(Loss) / Profit before tax</b>		<u>(80,104)</u>	<u>518,688</u>
Income tax credit / (charge)	7	43,488	(70,137)
<b>(Loss) / Profit after tax for the year</b>		<u>(36,616)</u>	<u>448,551</u>
<b>Attributable to:</b>			
Equity holders		(36,616)	448,551
<b>(Loss) / Profit for the year</b>		<u>(36,616)</u>	<u>448,551</u>

The notes on pages 10 to 27 form part of these accounts.

**Statement of Recognised Income and Expense****For the year ended 31 December 2008**

	<i>Note</i>	<b>2008 £'000s</b>	<b>2007 £'000s</b>
Change in fair value of equity securities available for sale	15	(99,755)	6,996
<b>(Loss) / Profit for the year</b>	15	(36,616)	448,551
<b>Total recognised income and expense for the year</b>		<u>(136,371)</u>	<u>455,547</u>
<b>Attributable to:</b>			
Equity holders		(136,371)	455,547
<b>Total recognised income and expense for the year</b>		<u>(136,371)</u>	<u>455,547</u>

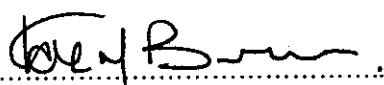
The notes on pages 10 to 27 form part of these accounts.

**Balance Sheet****As at 31 December 2008**

	<i>Note</i>	<b>2008</b> <b>£'000s</b>	<b>2007</b> <b>£'000s</b>
<b>Assets</b>			
Investments	9	714,081	1,086,358
Interests in associates	11	59,205	1,709
Interests in jointly controlled entities	12	15,252	2,257
Investments in subsidiary undertakings	10	33,505	31,188
<b>Total non-current assets</b>		<b>822,043</b>	<b>1,121,512</b>
Trade and other receivables	18	-	1,368
Cash and cash equivalents	14	103,332	245,123
Due by related undertakings		-	24,845
Income tax receivable	8	27,262	-
Deferred tax asset	13	1,784	-
<b>Total current assets</b>		<b>132,378</b>	<b>271,366</b>
<b>Total assets</b>		<b>954,421</b>	<b>1,392,848</b>
<b>Equity</b>			
Issued capital		2,000	2,000
Reserves		20,227	119,982
Retained earnings		63,255	449,871
<b>Total equity</b>	15	<b>85,482</b>	<b>571,853</b>
<b>Liabilities</b>			
Interest bearing loans and borrowings	17	288,596	232,968
Deferred tax liabilities	13	-	89,695
<b>Total non-current liabilities</b>		<b>288,596</b>	<b>322,663</b>
Bank overdrafts	14	448,061	168,516
Interest bearing loans and borrowings	17	103,364	228,240
Due to related undertakings		4,839	6,842
Trade and other payables	19	24,079	34,003
Income tax payable	8	-	60,731
<b>Total current liabilities</b>		<b>580,343</b>	<b>498,332</b>
<b>Total liabilities</b>		<b>868,939</b>	<b>820,995</b>
<b>Total equity and liabilities</b>		<b>954,421</b>	<b>1,392,848</b>

The notes on pages 10 to 27 form part of these accounts.

Approved by the Board at a meeting on 25th March 2009 and signed on its behalf by:

  
 Director

**Statement of Cash Flows****For the year ended 31 December 2008**

	<i>Note</i>	<b>2008</b> <b>£'000s</b>	<b>2007</b> <b>£'000s</b>
<b>Cash flows from operating activities</b>			
Operating (loss) / profit		(53,315)	543,822
Profit on disposal of investments		(84,912)	(329,754)
Amounts written off investments	9	92,065	10,010
Amounts written off investments in associates	11	23,463	-
(Decrease) / Increase in amounts due to related undertakings		(2,003)	4,537
Decrease / (Increase) in amounts due by related undertakings		24,845	(13,213)
Exchange rate movement		(6,624)	(1,739)
Fair value losses / (gains) through income statement	9	60,402	(17,957)
Decrease in trade and other receivables		1,368	15,848
Decrease in trade and other payables		(10,471)	(60,755)
<b>Cash generated from operations</b>		<b>44,818</b>	<b>150,799</b>
Interest paid		(27,336)	(20,352)
Income taxes paid		(97,192)	(61,959)
<b>Net cash from operating activities</b>		<b>(79,710)</b>	<b>68,488</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments and interests		365,968	665,190
Acquisition of investments and interests		(210,627)	(216,868)
<b>Net cash from investing activities</b>		<b>155,341</b>	<b>448,322</b>
<b>Cash flows from financing activities</b>			
Decrease in borrowings		(69,248)	(38,976)
Dividends paid	15	(350,000)	(280,000)
Exchange rate movement		(86,056)	(31,400)
<b>Net cash from financing activities</b>		<b>(505,304)</b>	<b>(350,376)</b>
Net (decrease) / increase in cash and cash equivalents		(429,673)	166,434
Effect of exchange rate fluctuations on cash held		8,337	1,299
Cash and cash equivalents at 1 January		76,607	(91,126)
<b>Cash and cash equivalents at 31 December</b>	14	<b>(344,729)</b>	<b>76,607</b>

The notes on pages 10 to 27 form part of these accounts.

## Notes to the financial statements

### 1. Significant accounting policies

Uberior Investments plc is a company domiciled in Scotland.

The financial statements were authorised for issue by the Directors on 25 March 2009.

#### a) Financial Statements

The financial statements of Uberior Investments plc comprise the Income Statement, the Company Balance Sheet, Statement of Cash Flows and Statement of Recognised Income and Expense together with the related Notes to the financial statements.

#### b) Statement of Compliance

The 2008 financial statements set out on pages 6 to 27 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union. As the Company has not utilised the "carve-out" provisions in respect of full fair value and portfolio hedging of core deposits in IAS 39 'Financial Instruments: Recognition and Measurement' as adopted by the European Union and consequently, the financial statements comply with International Financial Reporting Standards. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board.

The financial statements 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.

#### IFRS not yet applied

The following standard has not yet been adopted by the European Union, is not effective for the year ended 31 December 2008 and has not been applied in preparing the financial statements.

IAS 1 "Presentation of Financial Statements" which is effective for periods commencing on or after 1 January 2009. The application of this revised standard in 2008 would not have had any financial impact on the financial statements. It will impact the presentation and format of the primary statements and notes and these disclosures will be revised accordingly in the 2009 financial statements.

#### c) Basis of preparation

##### i) Principles Underlying Going Concern Assumption

During 2008, global financial markets experienced difficult conditions which have been characterised by a marked reduction in liquidity. As a consequence of this, governments and central banks carried out a series of actions to address the lack of liquidity within their respective banking systems. In the UK these actions have included the introduction by the Bank of England of liquidity support, through schemes (collectively "Bank of England facilities") such as the extended Long-Term Repo open market operations and the Special Liquidity Scheme ('SLS') whereby banks and building societies can exchange eligible securities for UK Treasury bills; and the creation of a credit guarantee scheme by HM Treasury, providing a government guarantee for certain short and medium term senior debt securities issued by eligible banks. During 2008 HBOS plc has made use of these measures in order to maintain and improve a stable funding position.

In the context of this continued turbulence and uncertainty in the financial markets, combined with a deteriorating global economic outlook, HBOS plc has also taken steps to strengthen its capital position in order to provide a buffer against further shocks to the financial system and to ensure that it remains competitive. On 15 January 2009, in conjunction with the takeover of HBOS plc by Lloyds TSB plc (Note 24 – Post Balance Sheet Events), HBOS plc raised £11,345m (net after costs) in preference and ordinary share capital.

On 16 January 2009, following completion of the acquisition of the Group by Lloyds Banking Group plc, the Group became a wholly owned subsidiary and became dependent upon the ultimate parent and its banking subsidiaries for its capital and liquidity funding needs.

**Notes to the financial statements (continued)****1. Significant accounting policies (continued)****c) Basis of preparation (continued)****i) Principles Underlying Going Concern Assumption (continued)**

There is a risk despite the substantial measures taken so far by governments that further deterioration in the markets could occur. In addition the economic conditions in the UK are deteriorating more quickly than previously anticipated placing further strain on the Lloyds Banking Group's capital resources. The key dependencies on successfully funding the Lloyds Banking Group's balance sheet include the continued functioning of the money and capital markets at their current levels; the continued access of the Lloyds Banking Group to central bank and Government sponsored liquidity facilities including access to HM Treasury's credit guarantee scheme and access to the Bank of England's various facilities; limited further deterioration in the Lloyds Banking Group's credit ratings; and no significant or sudden withdrawal of deposits resulting in increased reliance on money markets or Government support schemes.

Based upon projections prepared by Lloyds Banking Group plc management which take into account the acquisition on 16 January 2009 of HBOS plc and its subsidiaries (Note 24) together with the Lloyds Banking Group's current ability to fund in the market and the assumption that announced government sponsored schemes will continue to be available, the Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. The Company has received confirmation that it is the current intention of Lloyds Banking Group plc to ensure that the Company, as a subsidiary of HBOS plc, should have at all times for the foreseeable future access to adequate resources to continue to trade and meet the liabilities as they fall due. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

**ii) Basis of measurement**

The financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair values: financial instruments held for trading, financial instruments designated at fair value through the income statement and financial instruments classified as available for sale.

The accounting policies set out below have been applied consistently to the years presented in these financial statements.

**d) Recognition and Derecognition of Financial Assets and Liabilities**

The Company recognises loans and advances to customers and banks, other borrowed funds and other financial assets and liabilities upon origination.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Group is recognised as a separate asset.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

**e) Investment Securities**

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 are classified as loans and receivables. They are initially recognised at fair value plus directly related incremental 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 incremental transaction costs and are subsequently carried on the balance sheet at fair value.

**Notes to the financial statements (continued)****1. Significant accounting policies (continued)****e) Investment Securities (continued)**

Unrealised gains or losses arise from changes in the fair values and are recognised directly in equity in the available for sale reserve, except for impairment losses which are recognised immediately in the income statement in impairment on investment securities. Income on debt securities is recognised on an effective interest rate basis and taken to interest income 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.

Investment securities classified as available for sale are continually reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset and in the case of debt securities, non receipt of due interest or principal repayment, a breach of covenant within the security's terms and conditions or a measurable decrease in the estimated future cash flows since their initial recognition.

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.

The fair values of investment securities trading in active markets are based on market prices or broker / dealer valuations. Where quoted prices on instruments are not readily and regularly available from a recognised broker, dealer or pricing service, or available prices do not represent regular transactions in the market, the fair values are estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or similar valuation models.

The Company uses settlement date accounting when recording the purchase and sale of investment securities.

**f) Jointly Controlled Entities and Associates**

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

Associates 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.

The venture capital exemption is taken for investments where significant or joint control is present and the investing area operates as a venture capital business. These investments are designated 'at fair value through the income statement'. Otherwise, the Group's share of results of associates and jointly controlled entities, generally based on audited accounts, are included in the consolidated financial statements using the equity method of accounting. The share of any losses is restricted to a level that reflects an obligation to fund such losses.

**g) Investments in Subsidiaries**

Investments in subsidiaries are included in the Company's financial statements. These comprise equity investments in, and capital contributions to subsidiary entities. These are carried at cost less impairment provisions. At each reporting date an assessment is undertaken to determine if there is any indication of impairment. This assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the subsidiary. If there is an indication of impairment, an estimate of the recoverable amount is made. If the carrying value exceeds the recoverable amount then a provision for impairment is made to reduce the carrying value to the recoverable amount.

The financial statements of subsidiaries 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.

**Notes to the financial statements (continued)****1. Significant accounting policies (continued)****h) 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 in full 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 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 overseas earnings where remittance is controlled by the Company. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates that are enacted or substantially enacted at the balance sheet date.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**i) Foreign currencies**

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.

Monetary assets and liabilities denominated in foreign currencies are translated at balance sheet date exchange rates.

Exchange differences arising from changes in the amortised cost of foreign currency monetary available for sale assets are recognised in the income statement.

**j) Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses.

**k) Cash and cash equivalents**

Cash and cash equivalents consist of cash and balances at central banks that are freely available, and loans and advances to banks with an original maturity of three months or less excluding financial assets that are held for trading purposes.

**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.

**(ii) Management fees**

Management fees payable to funds are included as an expense within administrative expenses. Fees payable are normally charged to the income statement as incurred.

**Notes to the financial statements (continued)****1. Significant accounting policies (continued)****o) 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.

**p) Fees and Commission**

Fees and commission income and expense is recognised in the income statement as the related service is provided except those that are integral to the effective interest rate calculations or to investment contract deferred origination costs.

Fees and commission recognised in the income statement comprise agency fees.

**q) Critical Accounting Judgements**

The preparation of the financial statements necessarily requires the exercise of judgement in the application of accounting policies which are set out on pages 10 to 15. These judgements are continually reviewed and evaluated based on historical experience and other factors. The principal critical accounting judgements made by the Group / Company that have a material financial impact on the financial statements are as follows:

**Designation of Financial Instruments**

The Company has classified its financial instruments in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. In some instances the classification is prescribed whilst in others the Company is able to exercise judgement in determining the classification as follows:

Non-derivative financial assets, other than those held for trading, where there is no active market and which have fixed or determinable payments are classified as 'loans and receivables';

In addition the venture capital exemption is taken for investments where significant influence or joint control is present and the investing area operates as a venture capital business. These investments are designated 'at fair value through the income statement'. This policy is applied consistently across the Company's portfolios. Judgement is applied when determining whether or not a business area operates as a venture capital business. The judgement is based on consideration of whether, in particular, the primary business activity is investing for current income, capital appreciation or both; whether the investment activities are clearly and objectively distinct from any other activities of the Company; and whether the investee operates as a separate business autonomous from the Company;

The Company has chosen not to designate any financial assets as 'held to maturity';

All other financial assets are classified as 'available for sale'; and

All other financial liabilities are classified as 'at amortised cost'.

The accounting treatment of these financial instruments is set out in the relevant accounting policy.

More details of the models used to value the securities not traded in an active market is given in the section in 'fair values' in critical accounting estimates below.

**Impairment of Available for Sale Investments**

As explained in the accounting policy, investment securities classified as available for sale are continually reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset and, in the case of debt securities, non-receipt of due interest or principal repayment, a breach of covenant within the security's terms and conditions or a measurable decrease in the estimated future cash flows since their initial recognition.

## Notes to the financial statements (continued)

## 1. Significant accounting policies (continued)

## q) Critical Accounting Judgements (continued)

**Impairment of Available for Sale Investments (continued)**

The disappearance of active markets, declines in market value and ratings downgrades do not in themselves constitute objective evidence of impairment and, unless a default has occurred on a debt security, the determination of whether or not objective evidence of impairment is present at the balance sheet date requires the exercise of management judgement.

**Critical Accounting Estimates**

The preparation of the financial statements requires the Company to make estimations where uncertainty exists. The principal critical accounting estimates made by the Group are considered below. Disclosures about estimates and the related assumptions are also included in the appropriate note.

**Fair Values**

The designation of financial instruments for measurement purposes is set out under the critical accounting judgements above and the valuation methodologies for financial instruments are set out in the appropriate accounting policies.

## 2. Investment income

	2008 £'000s	2007 £'000s
Income from investment securities available for sale	14,971	26,054
Income from investment securities loans and receivables	15,817	16,141
Redemption premium	-	3,676
	<u>30,788</u>	<u>45,871</u>

## 3. Administrative expenses

	2008 £'000s	2007 £'000s
Management fees	<u>7,695</u>	<u>6,202</u>

## 4. Other income

	2008 £'000s	2007 £'000s
Interest from HMRC	-	713
Foreign exchange gain	7,159	1,189
Other	2,884	647
	<u>10,043</u>	<u>2,549</u>

## 5. Other expenses

	2008 £'000s	2007 £'000s
Audit Fee	9	9
Other Expenses	22	124
	<u>31</u>	<u>133</u>

## 6. Financial expenses

	2008 £'000s	2007 £'000s
Interest expense	<u>26,789</u>	<u>25,134</u>

## Notes to the financial statements (continued)

## 7. Income tax

## Recognised in the income statement

	2008 £'000s	2007 £'000s
<b>Current tax</b>		
Current year	20,663	66,030
Adjustments for prior years	(43,680)	(1,028)
	<u>(23,017)</u>	<u>65,002</u>
<b>Deferred tax</b>		
Deferred tax (credit) / charge for the year	(17,977)	12,514
Deferred tax credit in respect of prior years	(2,494)	(4,305)
Deferred tax credit due to change in tax rate	-	(3,074)
	<u>(20,471)</u>	<u>5,135</u>
Total income tax (credit) / charge in income statement	<u>(43,488)</u>	<u>70,137</u>

## Reconciliation of effective tax rate

	2008 £'000s	2007 £'000s
(Loss) / Profit before tax	(80,104)	518,688
Income tax using the corporation tax rate of 28.5% (2007: 30%)	(22,830)	155,606
UK dividends received	(3,379)	(52,229)
Impact of change in rate of Corporation tax	321	(3,074)
Overseas income taxed	1,153	-
Book gains covered by indexation / SSE	(3,845)	(30,053)
Amounts written off fixed asset investments	31,266	5,221
Adjustments for prior years	(46,174)	(5,334)
	<u>(43,488)</u>	<u>70,137</u>

## Deferred tax recognised directly in equity

	2008 £'000s	2007 £'000s
Relating to equity securities available for sale	<u>(38,791)</u>	<u>1,766</u>

## 8. Current tax assets and liabilities

The current tax asset of £27,262,000 (2007: liability - £60,731,000) represents the amount of income taxes receivable in respect of current and prior years.

## Notes to the financial statements (continued)

## 9. Investments

	Loans and receivables £'000s	Designated at fair value through income statement £'000s	Available for sale £'000s	2008 Total £'000s	2007 Total £'000s
<b>Gross investments</b>					
<b>Listed</b>					
Equity shares	-	-	65,594	65,594	73,673
	-	-	65,594	65,594	73,673
<b>Unlisted</b>					
Debt securities	120,614	-	-	120,614	309,712
Equity shares	-	63,165	556,773	619,938	712,983
	120,614	63,165	556,773	740,552	1,022,695
<b>Less amounts written off</b>					
Debt securities	(1,841)	-	-	(1,841)	(136)
Equity shares	-	-	(90,224)	(90,224)	(9,874)
	(1,841)	-	(90,224)	(92,065)	(10,010)
<b>Total investments</b>	<b>118,773</b>	<b>63,165</b>	<b>532,143</b>	<b>714,081</b>	<b>1,086,358</b>
<b>Comprising</b>					
Debt securities	118,773	-	-	118,773	309,576
Equity shares	-	63,165	532,143	595,308	776,782
	118,773	63,165	532,143	714,081	1,086,358

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	2008 Total £'000s
At 1 January 2008	309,576	134,224	642,558	1,086,358
Exchange translation	2,350	1	83,086	85,437
Changes to fair value in available for sale investments	-	-	(138,546)	(138,546)
Changes to fair value in investments designated at fair value through income statement	-	(60,402)	-	(60,402)
Additions & transfers in	60	2	114,294	114,356
Disposals & transfers out	(191,372)	(10,660)	(79,025)	(281,057)
Amounts written off	(1,841)	-	(90,224)	(92,065)
As at 31 December 2008	118,773	63,165	532,143	714,081

## Notes to the financial statements (continued)

## 10. Investments in subsidiaries

	£'000s
At cost 1 January 2008	31,188
Additions	2,317
At cost 31 December 2008	<u>33,505</u>

Details of the subsidiary undertakings are noted below:

<u>Name of Company</u>	<u>% of Ordinary shares held</u>	<u>Principal business</u>	<u>Reference date</u>	<u>Country of incorporation</u>
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	Investment / Debt Issuance	31 December	Jersey
Tantallon Investments Inc	100	Investment	31 December	USA
HBOS Capital Funding LP No 1	100	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding LP No 2	100	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding LP No 3	100	Investment / Debt Issuance	31 December	Jersey
HBOS Capital Funding LP No 4	100	Investment / Debt Issuance	31 December	Jersey
Uberior Equity Limited	100	Investment	31 December	UK
Uberior Fund Investments Limited	100	Investment	31 December	UK
Uberior Infrastructure Investments Ltd	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 Integrated Limited	100	Investment	31 December	UK
Uberior ENA Limited	100	Investment	31 December	UK
Bosint Investments Limited	100	Investment	31 December	Jersey
Uberior Fund Managers Ltd	100	Fund Administration	31 December	UK
Uberior Energy Limited	100	Investment	31 December	UK
Indicus North Limited	100	Investment	31 December	UK
Uberior ISAF CIP Nominee Ltd	100	Nominee	31 December	UK
Uberior Fund Holdings Ltd	100	Fund Administration	31 December	UK

Uberior Frenchgate Limited was disposed of during the year.

## 11. Interests in associates

	£'000s
At cost 1 January 2008	1,709
Additions	80,959
Amounts written off investments in associates	<u>(23,463)</u>
At cost 31 December 2008	<u>59,205</u>

**Notes to the financial statements (continued)****11. Interests in associates (continued)**

The Company has a portfolio of associate investments. Details of the main investment in associate entities are as follows:

Name of associate entity	Proportion of ownership	Principal business	Incorporated	Reporting date of financial statements
The Miller Group Limited	19.99%	General construction and development	UK	31 December

**12. Interests in jointly controlled entities**

	£'000s
At cost 1 January 2008	2,257
Additions	12,995
At cost 31 December 2008	15,252

The Company has a portfolio of joint venture investments. Details of the main jointly controlled entities are as follows:

Name of jointly controlled entity	Proportion of ownership	Principal business	Incorporated	Reporting date of financial statements
Kaleidoscope Travel Group Holdings Limited	50%	Specialist Tour Operator	UK	30 November

**13. Deferred tax asset and liabilities****Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 £'000s	2007 £'000s	2008 £'000s	2007 £'000s	2008 £'000s	2007 £'000s
Other	4,496	938	-	(32,217)	4,496	(31,279)
Equity shares - Available for sale equities	-	-	(7,866)	(46,657)	(7,866)	(46,657)
Equity shares - Investments designated at FV through income statement	5,154	-	-	(11,759)	5,154	(11,759)
Tax assets/(liabilities)	9,650	938	(7,866)	(90,633)	1,784	(89,695)

## Notes to the financial statements (continued)

## 13. Deferred tax asset and liabilities (continued)

Movement in temporary differences in the year

	Balance at 1 Jan 2008 £'000s	Recognised in income £'000s	Recognised in equity £'000s	Transferred to HBOS £'000s	Balance at 31 Dec 2008 £'000s
Rolled over gains	(32,217)	-	-	32,217	-
Other	89	1,539	-	-	1,628
Investment write offs	849	2,019	-	-	2,868
	(31,279)	3,558	-	32,217	4,496
Investments designated at fair value through income statement	(11,759)	16,913	-	-	5,154
Available for sale equities	(46,657)	-	38,791	-	(7,866)
	(58,416)	16,913	38,791	-	(2,712)
Total	(89,695)	20,471	38,791	32,217	1,784

## 14. Cash and cash equivalents

	2008 £'000s	2007 £'000s
Bank balances	103,332	245,123
Bank overdrafts	(448,061)	(168,516)
Cash and cash equivalents in the statement of cash flows	(344,729)	76,607

## 15. Capital and reserves

The distributable reserves of the Company are managed through the Group Capital and Funding Policy in order to maximise capital efficiency within the HBOS Group. Dividends are paid from reserves available for distribution to the parent undertaking as reported by the previously approved annual accounts according to parameters set out at a Group level so as to avoid any build up of reserve balances within the Company. Other reserves, such as those arising on the revaluation of assets classified as 'available for sale' that are booked directly to equity, are not managed as part of capital.

## 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 2007	2,000	112,986	281,320	396,306
Profit for the year	-	-	448,551	448,551
Dividends to shareholders	-	-	(280,000)	(280,000)
Fair value changes on AFS equities	-	5,230	-	5,230
Deferred tax on AFS equities	-	1,766	-	1,766
Balance at 31 December 2007	2,000	119,982	449,871	571,853
Balance at 1 January 2008	2,000	119,982	449,871	571,853
Loss for the year	-	-	(36,616)	(36,616)
Dividends to shareholders	-	-	(350,000)	(350,000)
Fair value changes on AFS equities	-	(138,546)	-	(138,546)
Deferred tax on AFS equities	-	38,791	-	38,791
Balance at 31 December 2008	2,000	20,227	63,255	85,482

## Notes to the financial statements (continued)

## 15. Capital and reserves

Share capital	Ordinary shares 2008 £'000s	Ordinary shares 2007 £'000s
On issue at 1 January and at 31 December – fully paid	2,000	2,000

At 31 December 2008, the authorised share capital comprised 2,000,000 £1 Ordinary Shares (2007: 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.

## 16. Dividends

After the balance sheet date the Directors did not propose any further dividends.

## 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 Note 20.

	2008 £'000s	2007 £'000s
<b>Non-current liabilities</b>		
Unsecured bank loans	288,596	232,968
<b>Current liabilities</b>		
Current portion of unsecured bank loans	103,364	228,240

**Terms and debt repayment schedule**

The bank loans are unsecured and represent amounts due to the Company's immediate parent undertaking, Bank of Scotland plc. The loans fall due for repayment at various dates between November 2009 and November 2013. Interest is fixed on each loan at the date the loan is advanced to the Company.

## 18. Trade and other receivables

	2008 £'000s	2007 £'000s
Other debtors and accrued income	-	1,368

## 19. Trade and other payables

	2008 £'000s	2007 £'000s
Accruals	21,825	22,372
Creditors	2,254	11,631
	24,079	34,003

## Notes to the financial statements (continued)

## 20. Financial Instruments

**Credit Risk**

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business, principally from investment activities that bring debt securities into the Company's asset portfolio. The table below sets out the maximum exposure to credit risk at the balance sheet date.

	2008 £'000s	2007 £'000s
<u>On Balance sheet:</u>		
Investments - Debt securities	118,773	309,576
Trade and other receivables	-	1,368
Cash and cash equivalents	103,332	245,123
Due by related undertakings	-	24,845
	<u>222,105</u>	<u>580,912</u>

Debt securities are carried at amortised cost adopting the impairment policy described within Note 1(e). Other exposures consist of Bank and other inter-company balances with the HBOS Group and trade receivables which consist predominantly of accrued interest. At the reporting date none of the debt securities were considered past due or impaired neither were there any financial assets that would otherwise be past due or impaired had their terms not have been renegotiated.

The table below sets out the internal credit rating of debt securities:

	2008 %	2007 %
Internal rating - Better than satisfactory risk	-	9
Internal rating - Satisfactory risk	38	88
Internal rating - Viable but monitoring	47	3
Internal rating - High Risk	15	-

**Market risk**

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors such as:

- Interest rates (interest rate risk)
- Foreign exchange rates (foreign exchange risk)
- Equity markets (equity risk)

**Interest rate risk**

Interest rate risk exists where the Company's financial assets and liabilities have interest rates set under different bases, or which reset at different times.

Debt securities which provide fixed rate earnings have been matched with fixed rate financial liabilities provided by another HBOS group Company. Other interest bearing financial instruments are primarily limited to variable interest rates which respond to prevailing market rates of interest. Accordingly the Company does not have any significant interest rate exposures as demonstrated by the Net Interest Income Sensitivity note below.

Interest rate exposure is concentrated primarily within the UK money markets. The principal internal control metric is the Net Interest Income ("NII") sensitivity which measures how much of the current projection for the next 12 months' NII would alter if different assumptions are made about the future levels of interest rates.

The table below sets out the sensitivity of the Company's net interest income over a 12 month period to an immediate up and down 25 basis points change to all interest rates as at the balance sheet date.

	2008 £000	2007 £000
Impact of +25 bps shift	151	(421)
Impact of - 25 bps shift	(151)	421

## Notes to the financial statements (continued)

## 20. Financial Instruments (continued)

**Interest rate risk (continued)**

The measure, however, is simplified in that it assumes all interest rates, for all currencies and maturities, move at the same time and by the same amount. Also, it does not recognise the impact of management actions that, in the event of an adverse rate movement, could reduce the impact on NII.

**Foreign exchange risk**

Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The currencies giving rise to this risk are US Dollars, Euros and New Zealand Dollars. The Company follows a policy of ensuring that all foreign currency investments are matched with borrowings in the same currency, thus no sensitivity to foreign exchange exposure is considered to exist.

**Equity risk**

Equity risk exists from the Company's exposure to listed and unlisted equity shares. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is continually monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is set out below.

At the reporting date the carrying value of equity investments amounted to £595m. For investments carried at fair value through the income statement changes in fair value would have a direct impact on profit before tax (PBT) whereas available for sale investments will be taken directly to equity through the available for sale (AFS) reserve, unless the investment is deemed to be impaired and changes in fair value taken to the income statement. The table below sets out the sensitivity of PBT and the AFS reserve (before tax) to a 1% fall in fair value of equity investments as at the balance sheet date.

	2008 PBT	2008 AFS reserve	2007 PBT	2007 AFS reserve
	£000	£000	£000	£000
Unlisted equity investments	632	4,863	1,342	5,692
Listed equity investments	-	459	-	733
	632	5,322	1,342	6,425

The fund investment portfolio remains well diversified across five major concentration indicators: fund type, fund manager, underlying investment volume, underlying investment sector and underlying investment geographic location. Geographic exposure is predominantly within the UK and there is an insignificant market concentration outside of the European Union at fund manager level.

**Liquidity Risk**

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows relating to assets, liabilities and off-balance sheet instruments. The Company's short term liquidity requirements are supported by a facility with another HBOS Group company subject to internal limits. Overall liquidity of the HBOS plc Group is managed centrally.

The table below sets out the cash flows payable by the Company in respect of financial liabilities, by remaining contractual undiscounted repayments of principal and interest at the balance sheet date.

As at 31 December 2007

	Up to 1 mth £000	1-3 mths £000	3-12 mths £000	1-5 yrs £000	Total £000
Bank overdrafts	168,516	-	-	-	168,516
Interest bearing loans and borrowings	7,070	7,891	236,180	268,574	519,715
Due to related undertakings	6,842	-	-	-	6,842
Trade and other payables	34,003	-	-	-	34,003
Total liabilities	216,431	7,891	236,180	268,574	729,076

## Notes to the financial statements (continued)

## 20. Financial Instruments (continued)

## Liquidity Risk (continued)

As at 31 December 2008

	Up to 1 mth £000	1-3 mths £000	3-12 mths £000	1-5 yrs £000	Total £000
Bank overdrafts	448,061	-	-	-	448,061
Interest bearing loans and borrowings	11,612	3,268	81,622	334,896	431,398
Due to related undertakings	4,839	-	-	-	4,839
Trade and other payables	24,079	-	-	-	24,079
Total liabilities	488,591	3,268	81,622	334,896	908,377

## 21. Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Note	Carrying amount 2008 £'000s	Fair value 2008 £'000s	Carrying amount 2007 £'000s	Fair value 2007 £'000s
Equity securities available for sale	9	532,143	532,143	642,558	642,558
Equity securities designated at fair value through the income statement	9	63,165	63,165	134,224	134,224
Debt securities – loans & receivables	9	118,773	118,773	309,576	309,576
Trade and other receivables	18	-	-	1,368	1,368
Cash and cash equivalents	14	103,332	103,332	245,123	245,123
Amounts due by subsidiary undertakings		-	-	24,845	24,845
Unsecured bank facilities		(391,960)	(408,035)	(461,208)	(464,943)
Trade and other payables	19	(24,079)	(24,079)	(34,003)	(34,003)
Due to related undertaking		(4,839)	(4,839)	(6,842)	(6,842)
Bank overdrafts	14	(448,061)	(448,061)	(168,516)	(168,516)
		(51,526)	(67,601)	687,125	683,390
Unrecognised losses			(16,075)		(3,735)

## 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.

## Equity 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. In summary, the valuation model will include the review of operational performance to budget, future profitability forecasts and other general operational risk indicators.

## Debt securities

There is no active market for the debt securities held by the Company, nor does the portfolio contain securities with regular payment profiles which would allow fair values to be calculated using a discounted cashflow model. Accordingly the fair value has been held at amortised cost.

**Notes to the financial statements (continued)****21. Fair values (continued)****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.

**22. Capital commitments**

The Company has committed £1,258 million (2007: £1,143 million) as a limited partner in private equity funds of which £167 million (2007: £273 million) is undrawn.

**23. Related parties**

The Company's immediate parent undertaking is Bank of Scotland plc.

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

<b>Nature of transaction</b>	<b>Outstanding balance at 1 January 2008</b>	<b>Outstanding balance at 31 December 2008</b>	<b>Income/(expense) included in the income statement for the year ended 31 December 2008</b>	<b>Disclosure in financial statement</b>	<b>Counterparty</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>		
Bank balance GBP account	245,123	-		Cash and cash equivalents	Bank of Scotland
Bank balance GBP account	(168,516)	(448,061)		Bank overdraft	Bank of Scotland
Euro term deposit	-	42,978		Cash and cash equivalents	Bank of Scotland
Term loans Euro account	(218,785)	(339,086)		Interest bearing loans and borrowing	Bank of Scotland International
Term loans USD account	(41,959)	(37,874)		Interest bearing loans and borrowing	Bank of Scotland International
Term loans NZD account	(185,465)	-		Interest bearing loans and borrowing	Bank of Scotland International
Term loans	(15,000)	(15,000)		Interest bearing loans and borrowing	Bank of Scotland
Bank balance Euro account	-	54,507		Cash and cash equivalents	Bank of Scotland
Bank balance USD account	-	5,847		Cash and cash equivalents	Bank of Scotland
Interest payable			(26,789)	Financial expense	Bank of Scotland

**Notes to the financial statements (continued)****24. Post Balance Sheet Events****Lloyds acquisition**

On 18 September 2008, with the support of the UK Government, the boards of HBOS plc ('HBOS') and Lloyds TSB Group plc ('Lloyds TSB') announced that they had reached agreement on the terms of the recommended acquisition of HBOS by Lloyds TSB. The terms of the acquisition were subsequently amended, as announced on 13 October 2008, at the same time as the announcement of the participation by HBOS and Lloyds TSB in the Government's action plan to recapitalise some of the major UK banks. The acquisition was to be implemented by means of a scheme of arrangement with a separate scheme of arrangements in relation to preference shares, under sections 895 to 899 of the Companies Act 2006.

On 12 January 2009 the Court of Session in Edinburgh, Scotland made an order sanctioning the scheme of arrangement for the acquisition and the preference share scheme of arrangement. The last day of trading in HBOS ordinary and preference shares was 14 January 2009.

On 15 January 2009 HBOS raised £11.5bn of capital (before costs and expenses) through an issue of £8.5bn of new ordinary shares under a placing with HM Treasury subject to clawback by existing shareholders, and an issue to HM Treasury of £3bn of new preference shares. Lloyds TSB raised £4.5bn (before costs and expenses) through an issue of £3.5bn of new ordinary shares under a placing with HM Treasury subject to clawback by existing shareholders, and an issue to HM Treasury of £1bn of new preference shares.

On 16 January 2009 the Lloyds TSB acquisition of HBOS completed following final court approval and Lloyds TSB was renamed Lloyds Banking Group plc. The exchange of HBOS shares for Lloyds Banking Group shares took place at an exchange ratio of 0.605 of a new Lloyds Banking Group share for every one HBOS share held. As a result, the UK Government through HM Treasury owned approximately 43.4% of the enlarged ordinary share capital of Lloyds Banking Group. In addition, each class of preference share issued by HBOS, including the preference shares issued to HM Treasury in the capital raising was replaced with an equal number of new Lloyds Banking Group preference shares.

HBOS ordinary and preference shares were de-listed from the Official List of the UK Listing Authority and admission to trading on the London Stock Exchange was cancelled on 19 January 2009 when trading in the new Lloyds Banking Group shares commenced.

**Government Asset Protection Scheme**

On 7 March 2009, the Company's ultimate parent undertaking, Lloyds Banking Group plc ("LBG"), announced its intention to participate in the Government's Asset Protection Scheme. LBG intends to participate in the Scheme in respect of assets and exposures on its consolidated balance sheet with an aggregate book value of approximately £250bn and will pay a fee to HM Treasury of £15.6bn which will be amortised over an estimated 7 year period. The proceeds of this fee will be applied by HM Treasury in subscribing for an issue of "B" shares of LBG, carrying a dividend of the greater of 7 per cent per annum and 125 per cent of the dividend on ordinary shares.

LBG has also agreed to replace the £4bn of preference shares held by HM Treasury with new ordinary shares which will be offered to eligible LBG shareholders pro rata to their existing shareholdings at a fixed price of 38.43 pence per ordinary share. These new ordinary shares will be offered to shareholders and new investors on the same basis as the Placing and Open Offer in November 2008. The ordinary share offer is fully underwritten by HM Treasury on substantially the same fee basis as the Placing and Open Offer conducted in November 2008.

Participation in the Scheme and the replacement of the preference shares is subject to approval by eligible LBG shareholders.

**Notes to the financial statements (continued)****25. Parent undertakings**

As at 31 December 2008 the Company's immediate parent company was Bank of Scotland Plc. The Company regarded by the Directors as the ultimate parent company at 31 December 2008 was HBOS plc, a limited liability company incorporated and domiciled in Scotland, which was also the parent undertaking of the largest group of undertakings for which Group accounts are drawn up and of which the Company is a member.

From 16 January 2009, Uberior Investments Plc's ultimate parent undertaking and controlling party is Lloyds Banking Group plc (formerly Lloyds TSB Group) which is incorporated in Scotland. Lloyds Banking Group plc will produce consolidated accounts for the year ended 31 December 2009. Copies of the annual report and accounts of Lloyds TSB Group plc for the year ended 31 December 2008 may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London, EC2V 7HN.

Prior to 16 January 2009, HBOS plc was the ultimate parent undertaking of Uberior Investments Plc. Copies of the annual report and accounts of HBOS plc for the year ended 31 December 2008 may be obtained from HBOS plc's registered office at The Mound, Edinburgh, EH1 1YZ.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE UBERIOR INVESTMENTS PLC 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 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Cash Flows, 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 28.

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 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, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2008 and of its loss 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 March 2009