

Registered Number: SC242326

AIRBLES CONSTRUCTION (No 2.) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004



**AIRBLES CONSTRUCTION (No 2.) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

CONTENTS

	Page
Directors and Company Information	2
Directors' Report	3-5
Statement of Directors' Responsibilities	6
Independent Auditors' Report	7
Balance Sheet	8
Notes to the Financial Statements	9

**AIRBLES CONSTRUCTION (No 2.) LIMITED
DIRECTORS AND COMPANY INFORMATION**

DIRECTORS

I D Kerr (resigned 31 December 2004)
R Fleming (resigned 31 December 2004)
J S Lloyd (appointed 31 December 2004)
D J Walkden (appointed 31 December 2004)

SECRETARY

L J W Black

REGISTERED OFFICE

The Mound
EDINBURGH
EH1 1YZ

AUDITORS

KPMG Audit plc
1 The Embankment
Neville Street
LEEDS
LS1 4DW

AIRBLES CONSTRUCTION (No 2.) LIMITED DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

The company intends to enter into a contract for future build with The Governor and Company of the Bank of Scotland incorporated by the Act of Scottish Parliament in 1695.

BUSINESS REVIEW

The company was originally incorporated on 15 January 2003 as York Place (No 284) Limited in exchange for one pound consideration for the right to exercise its intention to build in the future. On 22 January 2003 the company changed its name to Airbles Construction (No 2.) Limited. No activities were undertaken during the year.

DIRECTORS AND DIRECTORS' INTERESTS

The directors at the date of this report are as listed on page 2.

Directors' beneficial interest in the ordinary shares of HBOS plc during the period were as follows: -

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

During the period, no director had any beneficial interest in the share capital of the company or of any group undertaking other than in HBOS plc, the ultimate holding company.

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

	At 31 December 2003 or date of appointment if later HBOS plc shares	At 31 December 2004 HBOS plc shares
J S Lloyd	4,261	6,676
D J Walkden	18,982	90,377

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 period was taken in shares and these shares are retained in trust for three periods, the following shares will also be transferred to the directors: -

	Grant effective from	Shares at 31 December 2004
J S Lloyd	March 2002	585
	March 2003	681
	March 2004	887
D J Walkden	March 2002	4,746
	March 2003	4,823
	March 2004	4,265

AIRBLES CONSTRUCTION (No 2.) LIMITED
DIRECTORS' REPORT (Cont'd)

DIRECTORS AND DIRECTORS' INTERESTS (Cont'd)

Long-Term Incentive Plan – HBOS scheme and former Halifax scheme

Details of the shares which have been conditionally awarded to directors under the plans are set out below. The conditions relating to the long-term incentive plan may be found in the HBOS plc Annual Report & Accounts 2004.

	Grant effective from	At 31 December 2003 or date of appointment if later	Granted (G) or lapsed (L) in year	Added as a result of performance	Dividend reinvestment shares	Released in year	At 31 December 2004
J S Lloyd	January 2001	2,939	2,939(L)	-	-	-	-
D J Walkden	January 2001	18,321	-	18,321	4,784	41,426	-
	January 2002	15,000	-	-	-	-	15,000
	January 2003	19,270	-	-	-	-	19,270
	January 2004	-	20,920(G)	-	-	-	20,920

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2001 grant ended on 31 December 2003 and, in the light of the performance outcome, grants were released at 200% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 26% of the original conditional grant were also released to participants in accordance with the rules of the plan.

Long-term Incentive Plan

HBOS scheme, former Bank of Scotland scheme and former Halifax scheme

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

	Options outstanding at 31 December 2003 or date of appointment	Granted (G), lapsed (L) or exercised (E) in period	At 31 December 2004
J S Lloyd	4,651	2,385(G)	7,036

AIRBLES CONSTRUCTION (No 2.) LIMITED
DIRECTORS' REPORT (Cont'd)

DIRECTORS AND DIRECTORS' INTERESTS (Cont'd)

Sharesave Plan

Share option granted under these plans are set out below: -

	At 31 December 2003	Granted (G), lapsed (L) or exercised (E) in period	At 31 December 2004
J S Lloyd	517	1,740(G) 517(L)	1,740
D J Walkden	2,761	-	2,761

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

AUDITORS AND ANNUAL GENERAL MEETING

Pursuant to a resolution passed by the members, the company has elected to dispense with the holding of Annual General Meetings, of laying financial statements and reports before the company in General Meeting, and with the obligation to reappoint auditors annually.

By Order of The Board



L J W BLACK
SECRETARY

The Mound
EDINBURGH
EH1 1YZ

Date 24/2/05

AIRBLES CONSTRUCTION (No 2.) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of the profit and loss for that period. In preparing those accounts, the directors are required to: -

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITORS REPORT TO THE MEMBERS
OF AIRBLES CONSTRUCTION (No 2.) LIMITED**

We have audited the accounts on pages 8 to 9.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 6, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practice Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 2004, and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 The Embankment
Neville Street
LEEDS LS1 4DW


Date *24 Feb 2005*

AIRBLES CONSTRUCTION (No 2.) LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2004

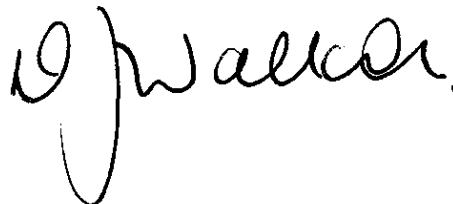
	Note	2004 £	2003 £
CURRENT ASSETS			
Cash in hand		1	1
		<hr/>	<hr/>
NET ASSETS		1	1
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	2	1	1
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS		1	1
		<hr/>	<hr/>

These financial statements were approved by the Board of Directors on 24/2/05 and were signed on its behalf by:

J S LLOYD
DIRECTOR



D J WALKDEN
DIRECTOR



The notes on page 9 form part of these financial statements.

AIRBLES CONSTRUCTION (No 2.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

1. ACCOUNTING POLICIES

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

1.1 BASIS OF PREPARATION

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

The financial statements have been prepared according to the going concern basis, as The Governor and Company of the Bank of Scotland, the intermediate parent undertaking has indicated that it will continue to provide financial and other support for the foreseeable future.

The company has not traded since its incorporation and consequently there is neither a profit nor a loss to report.

2. CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised 100,000 Ordinary shares of £1 each	100,000	100,000
	<hr/>	<hr/>
Allotted, called up and fully paid 1 ordinary share of £1 each	<hr/> 1	<hr/> 1

3. TRANSACTIONS WITH RELATED PARTIES

Airbles Construction (No 2.) Limited, as a wholly owned subsidiary undertaking of Airbles Road Properties Limited, has prepared its financial statements in accordance with an exemption contained in FRS 8, "Related Party Disclosures". Under this exemption the company has not disclosed details of transactions with other group companies or investees of the group qualifying as related parties, as the consolidated financial statements in which Airbles Construction (No 2.) Limited is included are publicly available.

4. ULTIMATE PARENT UNDERTAKING

HBOS plc is the ultimate parent undertaking of Airbles Construction (No 2.) Limited and heads the largest group into which the accounts of the Company are consolidated.

The Governor and Company of the Bank of Scotland incorporated by the Act of Scottish Parliament in 1695 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 incorporated by the Act of Scottish Parliament in 1695 may be obtained from its Head Office at The Mound, Edinburgh, EH1 1YZ.