

UBERIOR FUND INVESTMENTS LIMITED  
REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006

Company Number SC272465



Directors

K Bothwell  
D Gibson  
G McDonald  
S Morrison  
I Purves  
C Richards  
I Robertson  
G Shankland

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

K Bothwell	I Purves
D Gibson	C Richards
G McDonald	I Robertson
S Morrison	G Shankland

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

Incorporation

The Company was incorporated on 26 August 2004

Activity and review of business

The Company operates as an investment holding company

Results and Dividends

The profit after tax for the Company for the year ended 31 December 2006 was £86,180 (2005 loss £781,764)  
The Directors do not recommend payment of a dividend

Directors and their interests

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

Dates of appointments and resignations were as follows

<u>Director</u>	<u>Date of Appointment</u>
K Bothwell	08/02/2006
D Gibson	08/02/2006

Directors' beneficial interests 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 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

	<u>At 31 12 05</u> <u>or date of appointment if later</u> <u>HBOS plc shares</u>	<u>At 31 12 06</u> <u>HBOS plc shares</u>
K Bothwell	12,331	17,016
D Gibson	36,340	45,683
G McDonald	11,698	20,527
S Morrison	9,280	10,030
I Purves	9,394	11,274
C Richards	3,486	7,183
I Robertson	64,573	84,658
G Shankland	18,368	38,223

## REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)Short term Incentive Plan – HBOS scheme and former Halifax scheme

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

	<u>Grant effective from</u>	<u>Shares as at</u> <u>31 12 06</u>
K Bothwell	March 2004	1,775
	March 2005	1,485
	March 2006	1,495
D Gibson	March 2004	929
	March 2005	1,350
	March 2006	1,495
G McDonald	March 2004	1,724
	March 2005	1,530
	March 2006	1,495
S Morrison	March 2004	1,355
	March 2005	1,386
	March 2006	1,944
I Purves	March 2004	1,294
	March 2005	1,386
	March 2006	1,944
C Richards	March 2004	676
	March 2005	900
	March 2006	
I Robertson	March 2004	1,603
	March 2005	5,669
	March 2006	3,332
G Shankland	March 2004	2,322
	March 2005	4,254
	March 2006	4,487

## REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)Long term Incentive Plan – HBOS scheme and former Halifax scheme

Details of the shares which have been conditionally awarded to Directors under the plans are set out below. The conditions relating to the long term incentive plan may be found in the HBOS plc Annual Report & Accounts 2006

	<u>Grant effective from</u>	<u>At 31 12 05 or date of appointment if later</u>	<u>Granted (G) or lapsed (L) in year</u>	<u>Added as a result of performance</u>	<u>Dividend reinvestment shares</u>	<u>Released in year</u>	<u>At 31 12 06</u>
D Gibson	January 2006		3,176 (G)				3,176
C Richards	January 2004	6,508					6,508
	January 2005	6,150					6,150
	January 2006		9,567 (G)				9,567
I Robertson	January 2003	17,708		16,978	2,748	(37,434)	
	January 2004	25,104					25,104
	January 2005	21,428					21,428
	January 2006		20,481 (G)				20,481
G Shankland	January 2003	6,640		6,366	1,030	(14,036)	
	January 2004	6,973					6,973
	January 2005	10,168					10,168
	January 2006		17,067 (G)				17,067

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 2003 grant ended on 31 December 2005 and, in the light of the performance outcome, grants were released at 183% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 15.5% of the original conditional grant were also released to participants in accordance with the rules of the plan.

## REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)Long term Incentive PlanHBOS Scheme, former Bank of Scotland scheme and former Halifax Scheme

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

	<u>Options outstanding at 31 12 05 or date of appointment if later</u>	<u>Granted (G), lapsed (L) or exercised (E) in period</u>	<u>At 31 12 06</u>
K Bothwell	11,789		11,789
D Gibson	6,487	3,119 (E)	3,368
G McDonald	5,624	3,612 (E)	2,012
S Morrison	11,097	5,385 (E)	5,712
I Purves	10,641		10,641
C Richards	10,921		10,921
I Robertson	57,000	7,000 (E)	50,000
G Shankland	18,937	7,227 (E)	11,710

Sharesave Plan

Share options granted under these plans are set out below

	<u>As at 31 12 05 or date of appointment if later</u>	<u>Granted (G) lapsed (L) or exercised (E) in period</u>	<u>At 31 12 06</u>
K Bothwell	1,755	715 (G), 1,090 (E)	1,380
D Gibson	4,398	425 (G), 644 (E)	4,179
G McDonald	2,773	413 (G)	3,186
S Morrison	2,984	975 (G)	3,959
I Purves	2,309	997 (E)	1,312
C Richards	2,761		2,761
I Robertson	2,933	1,581 (E)	1,352
G Shankland	5,259	319 (G)	5,578

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)

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

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

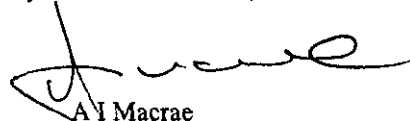
Company Secretary

A I Macrae

Auditors

KPMG Audit plc have signified their willingness to continue in office

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**

		<b>For the 17 month period ended 31 December</b>	
	<b>Note</b>	<b>2006 £</b>	<b>2005 £</b>
Investment Income	2	719,301	
Administrative expenses	3	(9,091,150)	(1,370,288)
Other expenses	4	(4,632)	(1,012)
<b>Net other expenses</b>		<b>(9,095,782)</b>	<b>(1,371,300)</b>
<b>Profit on disposal of investments</b>		<b>12,432,763</b>	<b>577,631</b>
<b>Operating profit before financing costs</b>		<b>4,056,282</b>	<b>(793,669)</b>
Financial expenses	5	(3,920,317)	(323,137)
<b>Profit/(loss) before tax</b>		<b>135,965</b>	<b>(1,116,806)</b>
Income tax (charge)/credit	6	(49,785)	335,042
<b>Profit/(loss) after tax for the year</b>		<b>86,180</b>	<b>(781,764)</b>
<b>Attributable to:</b>			
Equity holders		86,180	(781,764)
<b>Profit/(loss) for the year</b>		<b>86,180</b>	<b>(781,764)</b>

The notes on pages 11 to 20 form part of these accounts



**Statement of Recognised Income and Expense****For the year ended 31 December 2006**

			<b>For the 17 month period ended 31 December</b>
	<b>Note</b>	<b>2006 £</b>	<b>2005 £</b>
Change in fair value for equity investments available for sale	11	4,748,081	
<b>Profit/(loss) for the year</b>		<u>86,180</u>	<u>(781,764)</u>
<b>Total recognised income and expense for the year</b>		<u>4,834,261</u>	<u>(781,764)</u>
<b>Attributable to:</b>			
Equity holders		<u>4,834,261</u>	<u>(781,764)</u>
<b>Profit/(loss) for the year</b>		<u>4,834,261</u>	<u>(781,764)</u>

The notes on pages 11 to 20 form part of these accounts

**Balance Sheet****As at 31 December 2006**

	Note	2006 £	2005 £
<b>Assets</b>			
Investments	8	181,735,637	38,056,708
Investments in subsidiary undertakings	7	1,000	1,000
<b>Total non current assets</b>		<u>181,736,637</u>	<u>38,057,708</u>
Cash and cash equivalents	10	4,470,784	377,548
Income tax receivables			335,042
<b>Total current assets</b>		<u>4,470,784</u>	<u>712,590</u>
<b>Total assets</b>		<u>186,207,421</u>	<u>38,770,298</u>
<b>Equity</b>			
Issued capital		1	1
Reserves		4,748,081	
Retained earnings		(695,584)	(781,764)
<b>Total equity</b>	11	<u>4,052,498</u>	<u>(781,763)</u>
<b>Liabilities</b>			
Interest bearing loans and borrowings	12	72,984,471	
Deferred tax	9	2,034,892	
<b>Total non current liabilities</b>		<u>75,019,363</u>	
Bank overdraft	10	3,613,402	927,042
Interest bearing loans and borrowings	12	102,096,820	38,531,948
Trade and other payables	13	1,424,095	93,071
Income tax payable	6	1,243	
<b>Total current liabilities</b>		<u>107,135,560</u>	<u>39,552,061</u>
<b>Total liabilities</b>		<u>182,154,923</u>	<u>39,552,061</u>
<b>Total equity and liabilities</b>		<u>186,207,421</u>	<u>38,770,298</u>

The notes on pages 11 to 20 form part of these accounts

Approved by the Board by written resolution and signed on its behalf by



Director

19 February 2007

**Statement of Cash Flows****For the year ended 31 December 2006**

		<b>For the 17 month period ended 31 December 2005</b>
	<b>2006</b>	<b>2005</b>
<b>Note</b>	<b>£</b>	<b>£</b>
<b>Cash flows from operating activities</b>		
Operating profit/(loss)	4,056,282	(793,669)
(Increase)/decrease in trade & other payables	(1,281)	1,000
Acquisition of investments	(205,993,438)	(38,056,708)
Disposal of investments	65,543,631	
Exchange movement	3,553,851	
<b>Cash generated from operations</b>	<b>(132,840,955)</b>	<b>(38,849,377)</b>
Interest paid	(2,588,012)	(231,066)
Income taxes reimbursement	286,500	
<b>Net cash from operating activities</b>	<b>(135,142,467)</b>	<b>(39,080,443)</b>
<b>Cash flows from investing activities</b>		
Investment in subsidiary undertaking		(1,000)
<b>Net cash from investing activities</b>		<b>(1,000)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital		1
Increase in amounts due to related undertaking	136,549,343	38,531,948
<b>Net cash from financing activities</b>	<b>136,549,343</b>	<b>38,531,949</b>
Increase/(decrease) in cash and cash equivalents	1,406,876	(549,494)
Cash and cash equivalents at 1 January	(549,494)	
<b>Cash and cash equivalents at 31 December</b>	<b>10 857,382</b>	<b>(549,494)</b>

The notes on pages 11 to 20 form part of these accounts

**Notes to the financial statements****1. Significant accounting policies**

Uberior Fund Investments Limited (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 7 to 20 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS')

The accounting policies set out below have been applied in respect of the financial year ended 31 December 2006

These are the Company's first financial statements in which IFRS 1 has been applied. In preparing its opening IFRS Balance Sheet, the Company has not had to make adjustments to previous financial statements prepared in accordance with its old basis of accounting (UK GAAP)

The standards adopted by the Company are those endorsed by the European Union and effective at the date the consolidated 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 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****Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the last day of the month following the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement

**Notes to the financial statements (cont)****1. Significant accounting policies (cont)****(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 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 profit on disposal of investments.

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 Group 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) Trade and other receivables**

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

**(g) 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.

**Notes to the financial statements (cont)****1. Significant accounting policies (cont)****(h) Impairment**

The carrying amounts of the Company's assets, and deferred tax assets, are reviewed at the 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 profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

**(i) Share capital****(i) Dividends**

Dividends are recognised as a liability in the period in which they are declared.

**(j) Trade and other payables**

Trade and other payables are stated at cost.

**(k) Expenses****(i) Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method.

**(l) 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.

**Notes to the financial statements (cont)****2. Investment income**

	2006 £	2005 £
Income from investment securities available for sale	719,301	

**3. Administrative expenses**

	2006 £	2005 £
Management fees	9,091,150	1,370,288

**4. Other expenses**

	2006 £	2005 £
Bank charges	2,033	12
Audit fees	2,525	1,000
Irrecoverable VAT	74	
	4,632	1,012

**5. Net financing costs**

	2006 £	2005 £
Interest expense	3,890,333	323,137
Foreign exchange	29,984	
Net financing costs	3,920,317	323,137

**6. Income tax****Recognised in the income statement**

	2006 £	2005 £
Current year (charge)/credit at a rate of 30% (2005 30%)	(49,785)	335,042
Total income tax (charge)/credit in income statement	(49,785)	335,042

**Reconciliation of effective tax rate**

	2006 £	2005 £
Profit/(loss) before tax	135,965	(1,116,806)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK 30%	(40,790)	335,042
Income/expense not chargeable/deductable for tax purposes	(8,995)	
	(49,785)	335,042

**Current tax assets and liabilities**

The current tax liability of £1,243 (2005 asset £335,042) represents the amount of income taxes payable/receivable in respect of the current period

## Notes to the financial statements (cont)

## 7. Investment in subsidiary undertaking

	2006 Total £
At 31 December 2005	1,000
At cost as at 31 December 2006	1,000

Details of the subsidiary undertaking, which is incorporated in the UK, is noted below

Name of Company	Principle Business	% of Ordinary Shares
Uberior Co Investments Limited	Investment	100

Investments in subsidiary undertaking

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

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

## 8. Unlisted investments

	Available for sale £	2006 Total £	2005 Total £
Unlisted			
Equity securities	181,735,637	181,735,637	38,056,708
Total investments	181,735,637	181,735,637	38,056,708

The movement in investments can be summarised as follows

	Available for sale £
At January 2006	38,056,708
Exchange translation	(3,553,851)
Changes to fair value in available for sale investments	6,782,973
Additions	205,993,438
Disposals	(65,543,631)
As at 31 December 2006	181,735,637



## Notes to the financial statements (cont)

## 9. Deferred tax liabilities

## Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following

	Liabilities	
	2006	2005
	£	£
Available for sale equities	(2,034,892)	
Tax liabilities	(2,034,892)	

## Movement in temporary differences in the year

	Balance at 1 Jan 2006 £	Recognised in income £	Recognised in equity £	Balance at 31 Dec 2006 £
Available for sale equities			(2,034,892)	(2,034,892)
			(2,034,892)	(2,034,892)

## 10. Cash and cash equivalents

	2006 £	2005 £
Bank balances	4,470,784	377,548
Bank overdrafts	(3,613,402)	(927,042)
Cash and cash equivalents in the statement of cash flows	857,382	(549,494)

## 11. Capital and reserves

## Reconciliation of movement in capital and reserves

## Attributable to equity holders of the parent

	Share capital £	Fair value reserve £	Retained earnings £	Total equity £
Balance at 26 August 2004	1			1
Total recognised income and expense			(781,764)	(781,764)
FV changes on AFS Equities				
Deferred tax on AFS Equities				
Balance at 31 December 2005	1		(781,764)	(781,763)
Balance at 1 January 2006	1		(781,764)	(781,763)
Total recognised income and expense			86,180	86,180
FV changes on AFS Equities		6,782,973		6,782,973
Deferred tax on AFS Equities		(2,034,892)		(2,034,892)
Balance at 31 December 2006	1	4,748,081	(695,584)	4,052,498

**Notes to the financial statements (cont)****11. Capital and reserves (cont)****Share capital and share premium**

	<b>Ordinary shares</b>	
	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Issued for cash	1	1
On issue at 31 December	<u>1</u>	<u>1</u>

At 31 December 2006, the authorised share capital comprised 1 Ordinary Share

The holder of the Ordinary Share 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

**Dividends**

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

**12. 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 14

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>Non current liabilities</b>		
Unsecured bank loans	<u>72,984,471</u>	
<b>Current liabilities</b>		
Current portion of unsecured bank loans	<u>102,096,820</u>	<u>38,531,948</u>

**Terms and debt repayment schedule**

The term loans and bank overdrafts are unsecured and represent amounts due to the company's intermediate parent undertaking, The Governor and Company of the Bank of Scotland. The term loans fall due for repayment at various dates between May 2007 and May 2011

**13. Trade and other payables**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Audit fees	1,763	1,000
Accruals	<u>1,422,332</u>	<u>92,071</u>
	<u>1,424,095</u>	<u>93,071</u>

**Notes to the financial statements (cont)****14. Financial instruments**

Exposure to credit and interest rate risks arises in the normal course of the Company's business. Credit risk and interest rate risk is managed by the Company's ultimate parent company, 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 is provided by another HBOS group company with interest being charged at agreed rates within the Group.

**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.

			2006				
	Note	Effective Interest rate	Total £	6 months or less £	6 12 months £	1 2 years £	2 5 years £
Cash & cash equivalents	10	0.12%	4,470,784	4,470,784			
Loans and borrowings	12	4.02%	(175,081,291)	(89,489,908)	(12,606,912)	(22,669,839)	(50,314,632)
Bank overdrafts	10	0.06%	(3,613,402)	(3,613,402)			
Total			(174,223,909)	(88,632,526)	(12,606,912)	(22,669,839)	(50,314,632)

**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 US Dollars and Euros.

**Fair values**

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

	Note	Carrying amount 2006 £	Fair value 2006 £
Equity securities available for sale	8	181,735,637	181,735,637
Cash and cash equivalents	10	4,470,784	4,470,784
Bank overdrafts	10	(3,613,402)	(3,613,402)
Unsecured bank facilities	12	(175,081,291)	(172,913,022)
Trade and other payables	13	(1,424,095)	(1,424,095)
		6,087,633	8,255,902
Unrecognised gains			2,168,269

**Notes to the financial statements (cont)****14. Financial instruments (cont)****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

**Securities**

Fair value of 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

**15. Capital commitments**

As at 31 December 2006, the Company has committed £1,059 million as a limited partner in venture capital funds of which £1,021.3 million is undrawn

**16. Related parties**

The Company's immediate parent undertaking is Uberior Investments plc. The Company has a related party relationship with its intermediate parent company the Governor and Company of the Bank of Scotland

A number of banking transactions are entered into with the Governor and Company of the Bank of Scotland in the normal course of business including loans and deposits

The balances due to and from the Governor and Company of the Bank of Scotland are shown within the notes to the accounts. Details of the related party transactions during the period are disclosed in the table below

Nature of transaction	Outstanding balance at 31 December 2005	Outstanding balance at 31 December 2006	Income/expense included in profit and loss account for the year ended 31 December 2006	Disclosure in financial statement
	£	£	£	
Bank overdraft	927,042	3,613,402		Bank overdraft
Bank account	377,548	4,470,784		Cash and cash equivalents
Term loans	38,531,948	175,081,291		Interest bearing loans and borrowing
Interest payable			3,890,333	Financial expense

**Notes to the financial statements (cont)****17. Parent undertakings**

HBOS plc is the ultimate parent undertaking of Uberior Fund Investments Limited 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 Uberior Fund Investments Limited Report and 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,
- 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.

## **Independent Auditors' Report to the Members of Uberior Fund Investments Limited**

We have audited the financial statements of Uberior Fund Investments Limited 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 21.

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