UBERIOR VENTURES LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Company Number SC235067

Directors

H C McMillan
E J Morrison
B S Anderson
G R A Shankland
J C Moran
D K Gateley

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

H C McMillan	G R A Shankland
E J Morrison	J C Moran
B S Anderson	D K Gateley

The Directors submit their report and audited accounts of the Company for the year ended 31 December 2005.

Activity and review of business

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

Results and Dividends

The profit after tax for the Company for the year to 31 December 2005 was £107,626,849 (2004: £38,324,823). A final dividend of £30,000,000 was paid in the year (2004: £12,600,000). An interim dividend of £54,543,000 was paid in the year (2004: £10,374,000).

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 :-

Director	Date of appointment	Date of resignation
P J Cummings		31 October 2005
K M Bothwell		31 March 2005
G R A Shankland	7 February 2005	
J C Moran	29 March 2005	
D K Gateley	11 April 2005	

The other Directors, H C McMillan, E J Morrison, and B S Anderson served throughout the year.

Directors' beneficial interests in the ordinary shares of HBOS plc during the year were as follows:

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

During the year no Director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than in HBOS plc, the ultimate holding company.

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

	At 31.12.04 or date of appointment if later HBOS plc shares	At 31.12.05 HBOS plc shares
H C McMillan	78,781	110,321
E J Morrison	44,362	70,067
B S Anderson	7,587	7,392
G R A Shankland	9,109	18,368
J C Moran	2,541	5,193
D K Gateley	10,903	6,910

REPORT OF THE DIRECTORS (CONTINUED)

Directors and their interests (continued)

Short-term Incentive Plan – HBOS scheme and former Halifax scheme

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

	Grant effective from	Shares as at 31.12.05
H C McMillan	March 2003	2,662
	March 2004	2,605
	March 2005	4,145
E J Morrison	March 2003	4,306
	March 2004	3,340
	March 2005	6,524
B S Anderson	March 2003	339
	March 2004	751
	March 2005	427
G R A Shankland	March 2003	1,497
	March 2004	2,322
	March 2005	4,254
J C Moran	March 2003	298
	March 2004	972
	March 2005	1,159
D K Gateley	March 2003	933
	March 2004	851
	March 2005	885

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 2005.

	Grant effective from	At 31.12.04 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 31.12.05
H C McMillan	August 2002	9,894		9,894	2,982	(22,770)	-
	March 2003	15,625					15,625
	March 2004	21,385					21,385
	March 2005		18,253(G)				18,253
E J Morrison	August 2002	12,500		12,500	3,766	(28,766)	-
	March 2003	16,171					16,171
	March 2004	21,385					21,385
	March 2005		18,253 (G)				18,253
G R A Shankland	August 2002	5,208		5,208	1,568	(11,984)	-
	March 2003	6,640					6,640
	March 2004	6,973					6,973
	March 2005		6,944 (G)				6,944

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 2002 grant ended on 31 December 2004 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 30% 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 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 31.12.04 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.05
H C McMillan	64,261	12,000 (E)	52,261
E J Morrison	41,500	9,056 (E)	32,444
B S Anderson	19,399	14,618 (E)	4,781
G R A Shankland	18,937	-	18,937
J C Moran	8,853	4,809 (E)	4,044
D K Gately	5,085	1,545 (E)	3,540

Sharesave Plan
Share options granted under these plans are set out below.

	At 31.12.04	Granted (G) lapsed (L) or exercised (E) in year	At 31.12.05
H C McMillan	2,555	-	2,555
E J Morrison	3,412	307 (G)	
		944 (E)	2,775
B S Anderson	3,641	465 (G)	
		1,034 (E)	3,072
G R A Shankland	5,259	1,637 (E)	3,622
J C Moran	1,676	541 (G)	2,217
D K Gateley	5,376	128 (G)	5,504

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)

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.

6 February 2006

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

Income Statement

For the year ended 31 December 2005

	Note	2005 £	2004 £
Investment income	2	17,975,829	8,304,678
Income from investment in jointly controlled entities		27,686,188	28,743,776
		45,662,017	37,048,454
Profit on disposal of investments		69,515,305	4,606,317
Amounts written off investments	9/11	(4,400,000)	(1,108,853)
Administrative expenses	4	(9,714)	(273)
Other income	3	2,337,608	2,166,957
Other expenses	5	(4,000)	(4,000)
Net other income		2,333,608	2,162,957
Operating profit before financing costs		113,101,216	42,708,602
Financial income	6	-	1,139
Financial expenses	6	(1,377,100)	(43,995)
Net financing costs		(1,377,100)	(42,856)
Profit before tax		111,724,116	42,665,746
Income tax expense	7	(4,097,267)	(4,340,923)
Profit after tax for the year		107,626,849	38,324,823
Attributable to:			
Equity holders		107,626,849	38,324,823
Profit for the year		107,626,849	38,324,823

Statement of Recognised Income and Expense

For the year ended 31 December 2005

	Note	2005 £	2004 £
Profit for the year		107,626,849	38,324,823
Total recognised income and expense for the year	*15*	107,626,849	38,324,823
Attributable to:			
Equity holders		107,626,849	38,324,823
Profit for the year		107,626,849	38,324,823

Balance Sheet

As at 31 December 2005

	Note	**2005** £	**2004** £
Assets			
Investment in jointly controlled entities	*9*	192,027,240	97,824,713
Investment in subsidiary undertakings	*10*	150,000	150,000
Investments	*11*	340,105,481	349,652,536
Deferred tax assets	*12*	1,200,000	-
Total non-current assets		533,482,721	447,627,249
Trade and other receivables	*13*	25,295,802	890,118
Amounts due by subsidiary undertakings		25,203,704	34,851,463
Total current assets		50,499,506	35,741,581
Total assets		583,982,227	483,368,830
Equity			
Issued capital		1	1
Retained earnings		58,701,394	35,617,545
Total equity	*15*	58,701,395	35,617,546
Bank overdraft	*14*	439,703,852	377,348,612
Interest-bearing loans and borrowings	*16*	45,201,036	45,473,223
Amounts due to parent undertaking		-	7,141,089
Trade and other payables	*17*	35,849,217	16,122,359
Income tax payable	*8*	4,526,727	1,666,001
Total current liabilities		525,280,832	447,751,284
Total liabilities		525,280,832	447,751,284
Total equity and liabilities		583,982,227	483,368,830

Approved by the board at a meeting on 6 February 2006 and signed on its behalf by:

.... Director

.... Director

Statement of Cash Flows

For the year ended 31 December 2005

	Note	2005 £	2004 £
Cash flows from operating activities			
Operating profit		113,101,216	42,708,602
(Increase)/decrease in trade and other receivables		(24,405,684)	623,633
Increase/(decrease) in trade and other payables		19,726,858	16,024,723
Acquisition of investments		(311,873,198)	(254,583,870)
Disposal of investments		222,817,725	38,226,522
Provision against investments		4,400,000	1,108,853
Cash generated from operations		23,766,917	(155,891,537)
Interest paid		(1,377,100)	(43,995)
Income taxes paid		(2,436,540)	(941,955)
Net cash from operating activities		19,953,277	(156,877,487)
Cash flows from investing activities			
Interest received		-	1,139
(Increase)/decrease in amounts due from subsidiary undertakings		9,647,759	(34,851,462)
Increase/(decrease) in amounts due to parent undertaking		(7,141,089)	6,891,089
Acquisition of subsidiary undertaking			(150,000)
Net cash from investing activities		2,506,670	(28,109,234)
Cash flows from financing activities			
Increase/(decrease) in borrowings		(272,187)	45,473,223
Dividends paid		(84,543,000)	(22,974,000)
Net cash from financing activities		(84,815,187)	22,499,223
Net increase /(decrease) in cash and cash equivalents		(62,355,240)	(162,487,498)
Cash and cash equivalents at 1 January		(377,348,612)	(214,861,114)
Cash and cash equivalents at 31 December	*14*	(439,703,852)	(377,348,612)

Notes to the financial statements

1. Significant accounting policies

Uberior Ventures Ltd is a company domiciled in Scotland.

The financial statements were authorised for issue by the directors on 6 February 2006.

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as endorsed by the EU and effective (or available for early adoption) at 31 December 2005.

The accounting policies set out below have been applied in respect of the financial year ended 31 December 2005. IAS 32 and IAS 39 only became effective from 1 January 2005. Accordingly, the 2004 comparatives do not reflect the provisions of these standards, which have been prepared in accordance with the applicable UK accounting standards in force for that period. Where the implementation of these standards resulted in a change in accounting policy from 1 January 2005, the policy applied in respect of the 2004 comparative information has been set out at the end of this section (under the heading "*2004 accounting policies*") – the related 2005 policy has been annotated with an asterisk in the heading to indicate the change in policy. Where there is no asterisk, the policy has been applied consistently to both periods presented in the accounts.

These are the Company's first financial statements in which IFRS 1 has been applied.

(b) Basis of preparation

The financial statements are presented in Sterling. They are prepared on the historical cost basis except that financial instruments classified as available-for-sale are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2005 for the purposes of the transition to IFRSs.

Notes to the financial statements (cont)

Significant accounting policies (cont)

(c) 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.

(d) Investments *

Investments in jointly controlled entities
Jointly controlled entities are those which the Company has joint control under a contractual arrangement with other parties.

The attributable share of results of jointly controlled entities, generally based on audited accounts, are included in the consolidated financial statements of the Company's ultimate parent undertaking, HBOS plc, using the equity method of accounting. Accordingly, the Company records such investments at historic cost.

Investments in debt and equity securities
Debt securities are classified as loans and receivables where there is no active market. They are held on balance sheet at amortised cost with impairment losses or foreign exchange gains or losses being recognised immediately through the income statement. Income on loans and receivables is recognised on an effective interest rate basis and taken to interest receivable through the income statement.

Equity shares are classified as available for sale. They are held on balance sheet at fair value with unrealised gains or losses being recognised directly through reserves except for impairment losses, which are recognised immediately through the income statement. Income from listed equity shares is credited to other operating income on receipt of cash and from unlisted equity shares on the same basis.

(e) *Trade and other receivables*
Trade and other receivables are stated at their cost less impairment losses.

(f) *Cash and cash equivalents*
Cash and cash equivalents comprises cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

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

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

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

Notes to the financial statements (cont)

Significant accounting policies (cont)

(g) *Impairment (cont)*

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

(h) 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.

(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.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(l) Income tax

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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, without discounting, in respect of all temporary timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, based on the corporation tax rate expected when the timing differences reverse.

Deferred tax assets and liabilities are recognised separately in the balance sheet. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

2004 Accounting policies

Investments

Equity Shares – Equity shares held for investment are stated at cost less amounts written off.

Debt Securities – Debt securities and other fixed interest securities held for the longer term are included at cost less amounts written off.

Notes to the financial statements (cont)

2. Investment income

	2005 £	2004 £
Income from:		
Available for sale investments	524,921	258,038
Loans and receivables	17,450,908	8,046,640
	17,975,829	8,304,678

3. Other income

	2005 £	2004 £
Income from:		
Fee income	2,337,608	2,166,957

4. Administration expenses

	2005 £	2004 £
Other administrative expenses	9,714	273

5. Other expenses

	2005 £	2004 £
Audit fees	4,000	4,000

6. Net financing costs

	2005 £	2004 £
Interest income	-	1,139
Financial income	-	1,139
Interest expense	(1,377,100)	(43,995)
Financial expense	(1,377,100)	(43,995)
Net financing costs	(1,377,100)	(42,856)

Notes to the financial statements (cont)

7. Income tax expense

Recognised in the income statement

	Note	2005 £	2004 £
Current tax expense			
Current year		5,902,164	2,436,540
Adjustments for prior years		(604,897)	(1,715,539)
		5,297,267	721,001
Deferred tax expense			
Current year	12	(1,200,000)	98
Adjustments for prior years		-	3,619,824
		(1,200,000)	3,619,922
Total income tax expense in income statement		4,097,267	4,340,923

Reconciliation of effective tax rate

	2005 £	2004 £
Profit on ordinary activities before tax	111,724,116	42,665,746
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK	33,517,235	12,799,724
Income not chargeable for corporation tax purposes	(9,499,196)	(10,731,045)
Book gains covered by capital losses/indexation/substantial shareholdings	(19,435,875)	(182,196)
Amounts written off fixed asset investments	120,000	550,156
Adjustments to tax in respect of previous periods	(604,897)	1,904,284
Total income tax expense in income statement	4,097,267	4,340,923

8. Current tax assets and liabilities

The current tax liability of £4,526,727 (2004: £1,666,001) represents the amount of income taxes payable in respect of current and prior periods that exceed receipts.

Notes to the financial statements (cont)

9. Investment in jointly controlled entities

	£
At 1 January 2005	97,824,713
Additions	97,714,824
Disposals	(3,162,297)
Amounts written off	(350,000)
At 31 December 2005	192,027,240

10. Investment in subsidiary undertakings

	£
At 1 January 2005 and 31 December 2005	150,000

Details of the company's subsidiaries are as follows:

Name of subsidiary	Proportion of ownership	Principal business	Incorporated	Reporting date of Financial Statements
Uberior (Moorfield) Limited	100%	Investment holding company	UK	31 December
Uberior (Rodinheights) Limited	100%	Investment holding company	UK	31 December
Uberior Ventures 33 OBS Limited	100%	Property and property related investment	UK	31 December

11. Investments

	Loans and receivables	Available for sale	2005 Total	2004 Total	2004 Market Value
	£	£	£	£	£
Unlisted					
Debt securities	342,845,128	-	342,845,128	348,271,317	348,271,317
Equity shares	-	1,310,353	1,310,353	1,381,219	1,381,219
	342,845,128	1,310,353	344,105,481	349,652,536	349,652,536
Less aggregate amounts written off					
Debt securities	(4,000,000)	-	(4,000,000)	-	-
Equity shares	-	(50,000)	(50,000)	-	-
	(4,000,000)	(50,000)	(4,050,000)	-	-
Total investments	338,845,128	1,260,353	340,105,841	349,652,536	349,652,536
Comprising					
Debt securities	338,845,128	-	338,845,128	348,271,317	348,271,317
Equity shares	-	1,260,353	1,260,353	1,381,219	1,381,219
	338,845,128	1,260,353	340,105,481	349,652,536	349,652,536

Notes to the financial statements (cont)

11. Investments (cont)

The movement in investments can be summarised as follows:

	Loans and receivables £	Available for sale £	Total £
At 1 January 2005	348,271,317	1,381,219	349,652,536
Additions	265,538,571	50,000	265,588,571
Disposals	(270,964,760)	(120,866)	(271,085,626)
Amounts written off	(4,000,000)	(50,000)	(4,050,000)
As at 31 December 2005	338,845,128	1,260,353	340,105,481

12. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets 2005 £	2004 £	Liabilities 2005 £	2004 £	Net 2005 £	2004 £
Debt Securities – loans and receivables	(1,200,000)	-		-	(1,200,000)	-
Tax (assets) / liabilities	(1,200,000)	-	-	-	(1,200,000)	-

Movement in temporary differences in the year

	Balance at 1 Jan 2005 £	Recognised in income £	Balance at 31 Dec 2005 £
Debt Securities – loans and receivables	-	(1,200,000)	(1,200,000)
	-	(1,200,000)	(1,200,000)

	Balance at 1 Jan 2004 £	Recognised in income £	Balance at 31 Dec 2004 £
Provisions against investment in jointly controlled entities	(3,619,922)	3,619,922	-
	(3,619,922)	3,619,922	-

13. Trade and other receivables

	2005 £	2004 £
Other trade receivables and prepayments	25,295,802	890,118

14. Cash and cash equivalents

	2005 £	2004 £
Bank overdrafts	(439,703,852)	(377,348,612)
Cash and cash equivalents in the statement of cash flows	(439,703,852)	(377,348,612)

Notes to the financial statements (cont)

15. Capital and reserves

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent	Share capital	Retained Earnings	Total equity
	£	£	£
Balance at 1 January 2004	1	20,266,722	20,266,723
Total recognised income and expense		38,324,823	38,324,823
Dividends to shareholders		(22,974,000)	(22,974,000)
Balance at 31 December 2004	1	35,617,545	35,617,546
Balance at 1 January 2005	1	35,617,545	35,617,546
Total recognised income and expense		107,626,849	107,626,849
Dividends to shareholders		(84,543,000)	(84,543,000)
Balance at 31 December 2005	1	58,701,394	58,701,395

Share capital and share premium

	Ordinary shares	
	2005	*2004*
	£	£
On issue at 1 January and at 31 December	1	1

At 31 December 2005, the authorised share capital comprised 1,000 (£1) Ordinary Shares (2004: 1,000).

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.

Dividends
After the balance sheet date the following dividends were proposed by the directors.

The dividends have not been provided for and there are no income tax consequences.

	2005	2004
	£	£
£nil per qualifying ordinary share (*2004: £15,600,000*)	-	*15,600,000*

16. 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 18.

	2005	2004
	£	£
Current liabilities		
Unsecured bank facility	(45,201,036)	(45,473,223)

Terms and debt repayment schedule
The unsecured bank facility is payable to the company's intermediate parent undertaking, The Governor and Company of the Bank of Scotland in 2006. The loan bears interest at a fixed rate of 2.56% per annum, payable at the end of the loan term.

Notes to the financial statements (cont)

17. Trade and other payable

	2005 £	2004 £
Non-trade payables and accrued expenses	(35,849,217)	(16,122,359)

18. Financial instruments

Exposure to credit and interest rate risk arises in the normal course of the Company's business. Credit risk and interest rate risk is managed by the Company's ultimate parent 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 and bank overdraft facilities are 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 mature.

	Note	Effective interest rate	Total	6 months or less
Unsecured bank facility*	*16*	2.56%	(45,201,036)	(45,201,036)
Bank overdrafts	*14*	0%	(439,703,852)	(439,703,852)

* These assets / liabilities bear interest at a fixed rate.

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 currency giving rise to this risk is Euros.

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

	Note	Carrying amount 2005 £	Fair value 2005 £
Equity securities available-for-sale	*11*	1,260,353	1,260,353
Debt securities – loans and receivables	*11*	338,845,128	338,845,128
Trade and other receivables	*13*	25,295,802	25,295,802
Amounts due by fellow subsidiary undertakings		25,203,704	25,203,704
Bank overdraft	*14*	(439,703,852)	(439,703,852)
Unsecured bank facilities	*16*	(45,201,036)	(45,201,036)
Trade and other payables	*17*	(35,849,217)	(35,849,217)
		(130,149,118)	(130,149,118)
Unrecognised (losses) / gains			-

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.

Notes to the financial statements (cont)

18. Financial Instruments (cont)

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

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

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.

19. Capital Commitments

As at 31 December 2005, the Company had no capital commitments.

20. Related Parties

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

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 Company also has related party relationships with its subsidiary undertakings and its parent undertaking Uberior Investments plc. The relationships with subsidiary undertakings have arisen due to the provision of funding to these companies. The relationship with Uberior Investments plc has arisen due to payment of expenses by Uberior Investments plc on behalf of the Company.

The balances due to and from the related parties are shown within the notes to the accounts.

Notes to the financial statements (cont)

20. Related parties (cont)

Details of the related party transactions during the year are disclosed in the table below.

Nature of transaction	Related Party	Balance at 1 January 2005	Maximum outstanding balance during the year	Balance at 31 December 2005	Income/ expense included in income statement for the year ended 31 December 2005	2004 Comparative	Disclosure in financial statements
		£	£	£	£	£	£
Bank account	The Governor and Company of Bank of Scotland	377,348,612	462,429,042	439,703,852			Cash and cash equivalents
Term loan	The Governor and Company of Bank of Scotland	45,473,223	45,473,223	45,201,036			Interest bearing loans and borrowings
Interest payable on term loan	The Governor and Company of Bank of Scotland				1,038,948	43,995	Financial expenses
Intercompany receivable	Uberior (Rodinheights) Limited	24,582,300	24,582,300	23,930,206			Amounts due by subsidiary undertakings
Intercompany receivable	Uberior (Moorfield) Limited		90,164	90,164			Amounts due by subsidiary undertakings
Intercompany receivable	Uberior Ventures 33 OBS Limited	1,183,333	1,183,333	1,183,333			Amounts due by subsidiary undertakings
Intercompany payable	Uberior Investments plc	7,141,089	7,141,089				Amounts due to parent undertaking

21. Explanation of transition to IFRSs

As stated in note 1(a), these are the Company's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies applied in preparing the financial statements are set out in Note 1.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the table.

Notes to the financial statements (cont)

Reconciliation of equity

£	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRS	Opening IFRS*	Effect of transition to IFRSs	IFRS
			1 January 2004			31 December 2004			1 January 2005	
Assets										
Investment in jointly controlled entities	*9*	84,192,838		84,192,838	97,824,713		97,824,713	97,824,713		97,824,713
Investment in subsidiary undertakings	*10*	150,000		150,000	150,000		150,000	150,000		150,000
Investments	*11*	147,885,916		147,885,916	349,652,536		349,652,536	349,652,536		349,652,536
Deferred tax asset	*12*	3,619,922		3,619,922						
Total non-current assets		235,848,676		235,848,676	447,627,249		447,627,249	447,627,249		447,627,249
Trade and other receivables	*13*	1,513,751		1,513,751	890,118		890,118	890,118		890,118
Amount due by subsidiary undertakings		1		1	34,851,463		34,851,463	34,851,463		34,851,463
Total current assets		1,513,752		1,513,752	35,741,581		35,741,581	35,741,581		35,741,581
Total assets		237,362,428		237,362,428	483,368,830		483,368,830	483,368,830		483,368,830
Equity										
Issued capital	*15*	1		1	1		1	1		1
Retained earnings	*15*	9,892,722	10,374,000	20,266,722	20,017,545	15,600,000	35,617,545	35,617,545		35,617,545
Total equity attributable to equity holders of the parent	*15*	9,892,723	10,374,000	20,266,723	20,017,546	15,600,000	35,617,546	35,617,546		35,617,546

*Opening balances post December 2004 IFRS adjustments

Notes to the financial statements (cont)

Reconciliation of equity (cont)

£	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRS	Opening IFRS*	Effect of transition to IFRSs	IFRS
			1 January 2004			31 December 2004			1 January 2005	
Liabilities										
Bank overdraft	*14*	214,861,114		214,861,114	377,348,612		377,348,612	377,348,612		377,348,612
Interest-bearing loans and borrowings	*16*				45,473,223		45,473,223	45,473,223		45,473,223
Amount due to parent undertaking		10,624,000	(10,374,000)	250,000	22,741,089	(15,600,000)	7,141,089	7,141,089		7,141,089
Trade and other payables	*17*	97,636		97,636	16,122,359		16,122,359	16,122,359		16,122,359
Income tax payable	*8*	1,886,955		1,886,955	1,666,001		1,666,001	1,666,001		1,666,001
Total liabilities		227,469,705	(10,374,000)	217,095,705	463,351,284	(15,600,000)	447,751,284	447,751,284		447,751,284
Total equity and liabilities		237,362,428		237,362,428	483,368,830		483,368,830	483,368,830		483,368,830

* Opening balances post December 2004 IFRS adjustments

Notes to the financial statements (cont)

The effect of the above adjustments on retained earnings is as follow:

	1 January 2004 £	31 December 2004 £
Dividend payable to shareholders	10,374,000	15,600,000
Total adjustment to equity	10,374,000	15,600,000
Attributable to:		
Equity holders of the parent	10,374,000	15,600,000
	10,374,000	15,600,000

	Previous GAAP £	Effect of transition to IFRSs £	IFRSs £
Investment income	8,304,678		8,304,678
Income from investment in jointly controlled entities	28,743,776		28,743,776
Investment income	37,048,454		37,048,454
Profit on disposal of investments	4,606,317		4,606,317
Amounts written off investments	(1,108,853)		(1,108,853)
Administrative expenses	(273)		(273)
Other income	2,166,957		2,166,957
Other expenses	(4,000)		(4,000)
Net other income	2,162,957		2,162,957
Operating profit before financing costs	42,708,602		42,708,602
Financial income	1,139		1,139
Financial expenses	(43,995)		(43,995)
Net financing costs	(42,856)		(42,856)
Profit before tax	42,665,746		42,665,746
Income tax expense	(4,340,923)		(4,340,923)
Profit after tax for the year	38,324,823		38,324,823
Attributable to:			
Equity holders of the parent	38,324,823		38,324,823
Profit for the year	38,324,823		38,324,823

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in respect of the Uberior Ventures Limited report and the financial statements

The directors are responsible for preparing the Uberior Ventures Limited report and the financial statements in accordance with applicable law and regulations.

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

The financial statements are required by law to present fairly the financial position and performance of the company; 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 these 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR VENTURES LIMITED

We have audited the financial statements of Uberior Ventures Limited for the year ended 31 December 2005 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 Directors' Report and 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 26.

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 are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 other transactions is not disclosed.

We read other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
UBERIOR VENTURES LIMITED (continued)

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 2005 and of its profit for the year then ended; and

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

KPMG Audit Plc

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

24 February 2006