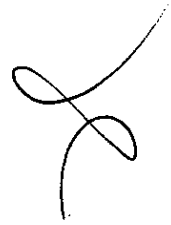
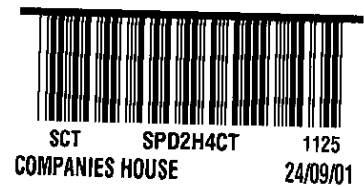


HBOS plc
INITIAL ACCOUNTS

For the period from
3 May 2001 to 14 September 2001



COMPANY NUMBER SC218813



REPORT OF THE DIRECTORSDirectors

Lord Stevenson
Peter A Burt
James R Crosby
Mike H Ellis
Andy H Hornby
Colin Matthew
W Gordon McQueen
George E Mitchell
Charles W Dunstone
Sir Ronald Garrick
Anthony J Hobson
Brian G Ivory
John N Maclean
Coline L McConville
Sir Bob Reid
P Louis M Sherwood
Lord Simpson of Dunkeld
Philip E Yea

The Directors submit the initial accounts of the Company for the period from 3 May 2001 to 14 September 2001, pursuant to section 273 of the Companies Act 1985.

Results

The profit for the period is shown in the profit and loss account on page 4.

Company details

HBOS plc was incorporated and registered in Scotland on 3 May 2001 as a public limited company under the Companies Act 1985. The principal legislation under which HBOS plc operates is the Companies Act 1985.

Full details of the authorised and issued share capital of HBOS plc are set out on page 8.

Share Capital

On 10 September 2001, the merger of The Governor and Company of the Bank of Scotland ("Bank of Scotland") and Halifax Group plc by way of Schemes of Arrangement under section 425 of the Companies Act 1985, was completed. Following the Bank of Scotland Scheme becoming effective on 7 September 2001, Bank of Scotland Stockholders received:

- One HBOS Ordinary Share in exchange for each Bank of Scotland Ordinary Stock Unit they owned at 6pm on 7 September 2001;
- One HBOS 9¼ per cent. Non-Cumulative Irredeemable Preference Share in exchange for each Bank of Scotland 9¼ per cent. Non-Cumulative Irredeemable Preference Stock Unit they owned at 6pm on 7 September 2001; and
- One HBOS 9¼ per cent. Non-Cumulative Irredeemable Preference Share for each Bank of Scotland 9¼ per cent. Non-Cumulative Irredeemable Preference Stock Unit they owned at 6pm on 7 September 2001.

Following the Halifax Group plc Scheme becoming effective on 10 September 2001, Halifax Group plc Shareholders received one HBOS Ordinary Share in exchange for each Halifax Group plc Ordinary Share they owned at 6pm on 7 September 2001.

Following the Schemes of Arrangement, HBOS plc is now established as the parent company of Bank of Scotland and Halifax Group plc.

Directors

The Directors at the date of this report are stated above. Mike Ellis and Sir Bob Reid were appointed on 31 May 2001. Each of the other Directors was appointed on 5 June 2001.

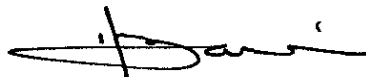
The undernoted served as Directors from 3 May 2001 until their resignation on the dates shown:

Jordans (Scotland) Limited	3 May 2001
Oswalds of Edinburgh Limited	3 May 2001
Peregrine Secretarial Services Limited	31 May 2001
Precis Company Services Limited	31 May 2001

Auditors

KPMG Audit Plc were appointed by the Board on 5 June 2001 as the first auditors to hold office until the conclusion of the next general meeting at which accounts are to be laid.

By Order of the Board,



Company Secretary.

Registered Office
The Mound,
Edinburgh
EH1 1YZ

18 September, 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The following statement, which should be read in conjunction with the Report of the Auditors on page 10, enables shareholders to distinguish the respective responsibilities of the Directors and the Auditors in relation to the accounts.

These accounts are not the annual financial statements of the Company and have not been drawn up in respect of a financial year of the Company. They have been prepared by the Directors as initial accounts within the meaning of section 273 of the Companies Act 1985 in respect of the Directors' determination as to whether a proposed distribution would contravene the relevant provisions of the Companies Act 1985.

Initial accounts prepared for this purpose are required to have been 'properly prepared' or to have been so prepared subject only to matters which are not material for determining, by reference to the relevant items in the accounts, whether the proposed distribution would contravene the relevant provisions of the Companies Act 1985. The Directors are responsible for preparing these initial accounts so as to give a true and fair view of the state of affairs of the Company as at 14 September 2001 and of the profit of the Company for the period from 3 May 2001 to 14 September 2001.

The Directors consider that in preparing the accounts on pages 4 to 9 suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that all accounting standards that they consider applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors 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.



Company Secretary
18 September 2001

PROFIT AND LOSS ACCOUNTFor the period from 3 May 2001 to 14 September 2001

	<u>£m</u>
Dividend income from shares in group undertakings	372
Retained profit for the period	<u>372</u>

All gains and losses arising during the period have been recognised in the profit and loss account.

The notes on pages 7 to 9 form part of these accounts.

BALANCE SHEET
As at 14 September 2001

	<u>Notes</u>	<u>£m</u>	<u>£m</u>
<u>Fixed Assets</u>			
Investments	2		1,299
<u>Current Assets</u>			
Amounts due from Group Undertakings	3	401	
<u>Creditors: Amounts falling due within one year</u>			
Preference Dividend Payable		(19)	
Amounts due to Group Undertakings	2	(19)	
		<u>(38)</u>	
<u>Net Current Assets</u>			363
<u>Total Assets less Current Liabilities</u>			<u>1,662</u>
<u>Net Assets</u>			<u>1,662</u>
<u>Share Capital and Reserves</u>			
Share Capital	4		1,290
Profit and Loss Account			372
<u>Shareholders' Funds</u>			<u>1,662</u>

Approved by the Board on 18 September 2001 and signed on its behalf by:



Chief Executive



Group Finance Director

The notes on pages 7 to 9 form part of these accounts.

CASH FLOW STATEMENTFor the period from 3 May 2001 to 14 September 2001

	<u>£m</u>
Operating Profit	372
Increase in Amounts due from Group Undertakings	(372)
Net cash inflow from operating activities	<u>-</u>
Increase in cash	<u>-</u>

The notes on pages 7 to 9 form part of these accounts.

NOTES ON THE ACCOUNTS

1. Accounting policies

1.1 Basis of preparation

These accounts have been prepared as initial accounts and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Accordingly certain notes to the accounts have been omitted. These initial accounts present information about the Company as an individual undertaking and not about its group.

The initial accounts have been drawn up under the historical cost convention and in accordance with applicable accounting standards.

The Directors have satisfied themselves that the Company has adequate resources to continue in business for the foreseeable future and that it is therefore appropriate for these initial accounts to have been prepared on a going concern basis.

A copy of the initial accounts will be delivered to the Registrar of Companies.

1.2 Investments

Investments in subsidiaries are stated in the balance sheet at cost in accordance with Section 133 of the Companies Act 1985. The Company has recorded the shares issued in respect of the acquisition of Bank of Scotland and Halifax Group plc at their nominal value, in accordance with the provisions of Section 131 of the Companies Act 1985.

2. Investments

On 7 September 2001, the Company acquired 100% of the Ordinary Stock, 100% of the 9¼ per cent. Non-Cumulative Irredeemable Preference Stock and 100% of the 9¾ per cent. Non-Cumulative Irredeemable Preference Stock of Bank of Scotland in consideration for the issue of 1,311,553,989 HBOS Ordinary Shares, 300,000,000 HBOS 9¼ per cent. Non-Cumulative Irredeemable Preference Shares and 100,000,000 9¾ per cent. Non-Cumulative Irredeemable Preference Shares.

On 10 September 2001, the Company acquired 100% of the Ordinary Share Capital of Halifax Group plc in consideration for the issue of 2,250,439,819 HBOS Ordinary Shares.

On 10 September 2001, HBOS plc took over as Principal Company for the Halifax Group plc Employee Share Ownership Plan and the No2 Halifax Employee Share Ownership Trust 2001. At both 10 September and 14 September, the cost of HBOS plc shares held by the Halifax Group plc Employee Share Ownership Plan amounted to £19 million and the cost of shares charged to Halifax plc profit and loss account over the performance period to date totalled £10 million. HBOS plc has shown as a fixed asset investment the net amount of £9 million with a corresponding amount of £19 million being due to Halifax Group plc and £10 million receivable from Halifax plc.

3. Amounts due from Group Undertakings

Amounts due from group undertakings comprise inter-company balances due from Bank of Scotland and Halifax Group plc.

NOTES ON THE ACCOUNTS (Continued)4. Share Capital

	<u>Authorised</u>		<u>Issued</u>	
	<u>Number</u>	<u>£m</u>	<u>Number</u>	<u>£m</u>
HBOS Ordinary Shares	4,740,000,000	1,185	3,561,993,808	890
HBOS 9¼ per cent. Non-Cumulative Irredeemable Preference Shares	375,000,000	375	300,000,000	300
HBOS 9¾ per cent. Non-Cumulative Irredeemable Preference Shares	125,000,000	125	100,000,000	100
HBOS 6½ per cent. Non-Cumulative Redeemable Preference Shares	200,000,000	200	-	-
HBOS Sterling Preference Shares	1,000,000,000	1,000	-	-
HBOS 8.117 per cent. Non-Cumulative Perpetual Preference Shares Class A	250,000	2	-	-
HBOS 7.754 per cent. Non-Cumulative Perpetual Preference Shares Class B	150,000	2	-	-
		<u>2,889</u>		<u>1,290</u>

	<u>Authorised</u>		<u>Issued</u>	
	<u>Number</u>	<u>Euro m</u>	<u>Number</u>	<u>Euro m</u>
HBOS Euro Preference Shares	1,500,000,000	<u>1,500</u>	-	<u>-</u>

The initial authorised share capital of HBOS plc was £50,000 divided into 50,000 shares of £1 each. At an Extraordinary General Meeting of HBOS plc on 12 June 2001, the shares were sub-divided into 200,000 ordinary shares of 25p each. On 7 September 2001, upon the Bank of Scotland Scheme of Arrangement becoming effective the authorised share capital of HBOS plc increased to £904,000,000 by the creation of a further 1,599,800,000 HBOS Ordinary Shares, 375,000,000 HBOS 9¼ per cent. Non-Cumulative Irredeemable Preference Shares, 125,000,000 9¾ per cent. Non-Cumulative Irredeemable Preference Shares, 250,000 HBOS Class A Perpetual Preference Shares and 150,000 HBOS Class B Perpetual Preference Shares.

On 10 September 2001, upon the Halifax Scheme of Arrangement becoming effective the authorised share capital increased to £2,889,000,000 and Euro 1,500,000,000 by the creation of a further 3,140,000,000 HBOS Ordinary Shares, 200,000,000 HBOS 6½ per cent. Non-Cumulative Redeemable Preference Shares, 1,000,000,000 HBOS Sterling Preference Shares and 1,500,000,000 HBOS Euro Preference Shares.

NOTES ON THE ACCOUNTS (Continued)4. Share Capital (Continued)

On 7 September 2001, the Company issued 1,311,553,989 HBOS Ordinary Shares, 300,000,000 HBOS 9¼ per cent. Non-Cumulative Irredeemable Preference Shares and 100,000,000 HBOS 9¼ per cent. Non-Cumulative Irredeemable Preference Shares as consideration for the acquisition of Bank of Scotland pursuant to the Bank of Scotland Scheme of Arrangement. On 10 September 2001, the Company issued 2,250,439,819 HBOS Ordinary Shares as consideration for the acquisition of Halifax Group plc pursuant to the Halifax Group Scheme of Arrangement.

On 12 September 2001, the Company issued 18,526 HBOS Ordinary Shares under the terms of the Halifax Group plc Share Ownership Plans.

REPORT OF THE AUDITORS TO THE DIRECTORS OF HBOS plc

Pursuant to section 273(4) of the Companies Act 1985

We have audited the initial accounts of HBOS plc set out on pages 4 to 9.

Respective responsibilities of directors and auditors

As described on page 3 the Directors are responsible for the preparation of the initial accounts. It is our responsibility to form an independent opinion, based on our audit, of those initial accounts and to report our opinion to them.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the initial accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the initial 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 initial 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 initial accounts.

Opinion

Section 273 of the Companies Act 1985 requires initial accounts to be 'properly prepared' within the meaning of section 272(3) or to be so prepared subject only to matters which are not material for determining, by reference to items mentioned in section 270(2), whether the proposed distribution would contravene sections 263 or 264 of the Companies Act 1985. The Directors have chosen the alternative basis of preparation and, in so doing, have omitted certain disclosures which would otherwise be required by Schedule 4 of the Companies Act 1985 to be included in the initial accounts.

Except for the effect of the foregoing matter in our opinion the initial accounts for the period from 3 May 2001 to 14 September 2001 have been properly prepared within the meaning of section 273 of the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Edinburgh, 18 September 2001

STATEMENT OF THE AUDITORS TO THE DIRECTORS OF HBOS PLC PURSUANT TO
SECTION 273(5) OF THE COMPANIES ACT 1985

We have audited the accounts of HBOS plc for the period from 3 May 2001 to 14 September 2001 in accordance with Auditing Standards issued by the Auditing Practices Board and have expressed a qualified opinion thereon in our report dated 18 September 2001.

Basis of opinion

We have carried out such procedures, as we considered necessary to evaluate the effect of the qualified opinion for the determination of profits available for distribution.

Opinion

In our opinion the subject matter of that qualification is not material for determining, by reference to those accounts, whether a distribution of not more than £372 million by the company would be permitted under sections 263 and 264 of the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Edinburgh, 18 September 2001