

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007



COMPANY NUMBER: 2279167

Directors

K R Glasscoe
L J Kavanagh
C Richards
Y E Sharp
D L Shindler

Secretary

P Gittins

Registered Office

Level 7
Bishopsgate Exchange
155 Bishopsgate
LONDON
EC2M 3YB

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
EDINBURGH
EH1 2EG

Bankers

Bank of Scotland plc
Head Office
The Mound
EDINBURGH
EH1 1YZ

REPORT OF THE DIRECTORS

Directors

K R Glasscoe
L J Kavanagh
C Richards
Y E Sharp
D L Shindler

The Directors submit their report and financial statement of the Company for the year ended 31 December 2007

Incorporation

The Company was incorporated on 21 July 1988

Principal activity

The Company was engaged in leasing assets to a third party for an agreed term. The company has investment in other leasing companies and acts as a parent company for other subsidiaries.

Business review

During the period the company continued the business of leasing assets to third parties by acquiring assets for letting under finance and operating leases.

The company acts as an agent for some of the leasing subsidiaries and charges an annual fee to these companies. The funding for the subsidiaries is provided by the company.

Services provided by the company to its subsidiaries include seeking of new business, negotiating and agreeing terms of arranging and execution of all lease documents on behalf of the subsidiaries.

The company also maintains accurate accounting and other records such as borrowing of funds and settlement of all invoices relating to the services provided by the company.

Risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the HBOS group ('the group'). Exposures to credit risk and interest rate risk arise in the normal course of the Company's business. These risks are discussed below and supplementary qualitative and quantitative information is provided by note 17 to the financial statements. The Company is funded by its immediate parent undertaking and as a result liquidity risk is managed within the HBOS group.

Credit risk

The Company undertakes a full credit assessment of the financial strength of each potential transaction and / or customer, awarding an internal risk rating. Internal ratings are reviewed regularly.

Interest rate risk

In relation to interest earning financial assets and interest bearing financial liabilities, the Company does not have any significant interest rate exposure.

Agreements are either fixed rate agreements where the customer is committed to pay interest at a rate fixed at the commencement of the agreement or variable rate agreement where any rise or fall in the base rate is passed onto the customer at the date of change and is matched with the funding liability. The company therefore had no significant exposure to interest rate risk.

Foreign exchange risk

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

REPORT OF THE DIRECTORS (continued)Performance

The Company's profit before tax for the year was £9,040,000 (2006 £20,253,000)

Future developments

The Company remains committed to the business of leasing assets to third parties and may write new business in future

Results and dividends

The profit after tax for the Company for the year to 31 December 2007 was £18,857,000 (2006 £18,733,000) No dividends were paid in the year

Directors and their interests

The Directors who served during the year were as follows

Director	Date of Appointment	Date of Resignation
J Aitken	5 November 2007	08 September 2008
K R Glasscoe	5 November 2007	-
L J Kavanagh	1 September 2008	-
S F Livingston	21 February 2006	5 November 2007
C Richards	13 July 2007	-
S J Peters	13 July 2007	22 July 2008
Y E Sharp	5 November 2007	-
D L Shindler	13 July 2007	-
L J Town	1 May 1999	5 November 2007

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

Supplier payment policy

It is the Company's policy that payments made to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers

Going concern

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts

The Company has received a letter of comfort from HBOS plc that confirms that it will provide sufficient funds or other financial support and resources to enable the Company to continue in business for the next year

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

P Gittins

REPORT OF THE DIRECTORS (continued)Auditors

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the Company in general meeting and the appointment of auditors annually are currently in force. The auditor, KPMG Audit plc, will therefore be deemed to have been reappointed at the end of the period of 28 days beginning with the day on which the copies of this report and accounts are sent to members unless a resolution is passed under section 393 of the Companies Act 1985 to the effect that their appointment be brought to an end.

By Order of the Board,



Y E Sharp
Director

Registered Office

Level 7
Bishopsgate Exchange
155 Bishopsgate
London
EC2M 3YB

INCOME STATEMENTFor the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Finance lease income	5	23,964	27,123
Net operating lease income	2	3,822	527
Interest receivable and similar income	3	67,404	54,477
Interest expense and similar charges	4	<u>(86,425)</u>	<u>(79,165)</u>
Operating profit		8,765	2,962
Administrative expenses		(1,814)	(2,112)
Foreign exchange gains		<u>2,089</u>	<u>19,403</u>
Profit on ordinary activities before taxation		9,040	20,253
Income tax credit/ (charge)	6	<u>9,817</u>	<u>(1,520)</u>
Profit for the year - all attributable to equity shareholders		<u>18,857</u>	<u>18,733</u>

The notes on pages 9 to 23 form part of the financial statements

STATEMENT OF RECOGNISED INCOME AND EXPENSEFor the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Profit for the year		<u>18,857</u>	<u>18,733</u>
Total recognised income and expense for the year		<u>18,857</u>	<u>18,733</u>
Attributable to			
Equity holders		<u>18,857</u>	<u>18,733</u>
Total recognised income and expense for the year	16	<u>18,857</u>	<u>18,733</u>

The notes on pages 9 to 23 form part of these accounts

BALANCE SHEETAs at 31 December 2007

	Notes	2007 £'000	2006 £'000
Assets			
Operating leased assets	7	58,689	57,179
Finance lease receivables	11	584,766	587,837
Investments	8	<u>122,632</u>	<u>114,148</u>
Total non-current assets		<u>766,087</u>	<u>759,164</u>
Other current assets	9	11,603	14,015
Finance lease receivables	11	307	-
Cash and cash equivalents	14	<u>962,810</u>	<u>972,614</u>
Total current assets		<u>974,720</u>	<u>986,629</u>
Total assets		<u>1,740,807</u>	<u>1,745,793</u>
Equity			
Issued capital	16	-	-
Accumulated loss	16	<u>(4,608)</u>	<u>(23,465)</u>
Total equity		<u>(4,608)</u>	<u>(23,465)</u>
Liabilities			
Deferred tax liabilities	15	<u>146,730</u>	<u>147,311</u>
Total non current liabilities		<u>146,730</u>	<u>147,311</u>
Amounts due to group undertakings	14	1,595,080	1,618,667
Other liabilities	10	<u>3,605</u>	<u>3,280</u>
Total current liabilities		<u>1,598,685</u>	<u>1,621,947</u>
Total liabilities		<u>1,745,415</u>	<u>1,769,258</u>
Total equity and liabilities		<u>1,740,807</u>	<u>1,745,793</u>

The notes on pages 9 to 23 form part of these accounts

Approved by the Board of Directors on 31 October 2008 and signed on its behalf by


 Director

STATEMENT OF CASHFLOWSFor the year ended 31 December 2007

	Note	2007	2006
		£'000	£'000
Cash flows from operating activities			
Profit before taxation		9,040	20,253
Adjustments for			
Depreciation		3,554	4,074
Amortised initial direct cost		235	235
Operating lease asset addition		(5,299)	-
Foreign exchange (profit)/loss		(2,089)	(19,403)
Investment in subsidiary		(8,484)	-
Movement in debtors		4,125	(11,057)
Movement in creditors		<u>325</u>	<u>1,870</u>
Cash generated/ (used) from operations		1,407	(4,028)
Income taxes received		<u>10,287</u>	<u>27,148</u>
Net cash from operating activities		11,694	23,120
Net increase in cash and cash equivalents		11,694	23,120
Cash and cash equivalents at 1 January		(646,053)	(688,576)
Effect of exchange rate fluctuations on cash held		<u>2 089</u>	<u>19,403</u>
Cash and cash equivalents at 31 December	14	<u>(632,270)</u>	<u>(646,053)</u>

The notes on pages 9 to 23 form part of these accounts

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

Bank of Scotland Structured Asset Finance Limited (the "Company") is a company domiciled in the UK

The financial statements were authorised for issue by the directors on 31 October 2008

(a) Statement of compliance

The financial statements of the Company comprise the Income Statement, Statement of Recognised Income and Expenses, Balance Sheet and the Cash Flow Statement together with the related Notes to the Accounts

The 2007 financial statements set out on pages 5 to 23 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') As the Company does not utilise the "carve-out" in IAS39 adopted by the European Union, the financial statements comply with International Financial Reporting Standards The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board

The financial statements also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004

The parent has indicated its intention to continue to provide sufficient finance to the company to enable it to continue trading for at least one year from the date of approval of these accounts

(b) Basis of preparation

Unless otherwise stated, the financial statements are presented in Sterling, the Company's functional currency and rounded to the nearest thousand They are prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair values financial instruments classified as fair value through income statement and available for sale

The Company is exempted from preparing consolidated accounts as it is a wholly owned subsidiary of its parent, Bank of Scotland plc, a company registered in the United Kingdom These financial statements present information about the Company as an individual undertaking and not its group

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons The company is dependent for its working capital on funds provided to it by HBOS plc, the company's ultimate parent HBOS plc has indicated that it is its current intention that, for at least 12 months from the date of approval of these financial statements, it will continue to make available sufficient funds as are needed by the company (whilst it remains a subsidiary) to enable it to continue trading and to meet its day to day commitments and in particular will not seek repayment of the amounts currently made available The directors consider that this should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so except as described in the next paragraph This uncertainty may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate

HBOS plc, in common with other banks, raises funds on the wholesale funding markets These are currently dislocated and accordingly this has significantly affected the availability of funding in this market Following the UK Government's announcement on 8 October 2008 and as part of a co-ordinated package of capital and funding measures for the UK banking sector, HBOS plc plans to place £8.5bn of ordinary shares and £3bn of preference shares with the UK Government, and has secured access to the UK Government guarantee for short and medium term debt issuance The UK Government's obligations in respect of these arrangements assume inter alia, completion of the acquisition of HBOS plc by Lloyds TSB Group plc, which is subject to shareholder and regulatory approval

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**1. Significant accounting policies (continued)****(c) Critical accounting estimates and judgements**

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are continually reviewed and evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significantly affected components of the financial statements and associated critical judgements are as follows:

(d) Impairment losses

Impairment loss calculations involve the estimation of future cash flows based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. These calculations are undertaken on a portfolio basis rather than in respect of significant balances, relating principally to larger corporate customers, which are assessed individually. In applying the portfolio basis the Company makes use of various statistical modelling techniques which are specific to different portfolio types. Significant judgement is applied in selecting and updating these models. In calculating individual impairment provisions the Company takes account of a number of relevant considerations including historical experience, future prospects of the customer, value of collateral held and reliability of information. Significant judgement is applied in estimating the impact of these considerations on the expected future cash flows.

(e) Effective interest rate

In calculating the effective interest rate of financial instruments the Company takes into account interest received or paid, fees and commissions paid or received, expected early redemptions, related penalties, premiums and discounts on acquisition or issue that are integral to the yield as well as incremental transaction costs. These calculations are undertaken on a portfolio basis other than in respect of significant balances, relating principally to larger corporate customers, which are assessed individually. In applying the portfolio basis the Company makes use of various statistical modelling techniques which are specific to different portfolios in estimating the expected cash flows from early redemptions and related fees to the extent that these are applicable. Significant judgement is applied in selecting and updating these models.

(e) Effective interest rate (continued)

In calculating the effective interest rates of individually significant balances the Company takes into account a number of relevant considerations to estimate the behaviour, credit scoring of the customer and anticipated future market conditions at the date of acquisition. Significant judgement is applied in estimating the impact of these considerations on the expected future cash flows.

(f) IFRS applied in 2007

The following IFRS standards and International Financial Reporting Interpretations Committee ('IFRIC') interpretations have been applied in 2007: IFRS 7 "Financial Instruments: Disclosures", the amendment to IAS 1 "Presentation of Financial Statements" on capital disclosure. There is no material financial impact arising from the application of these standards and interpretations.

(g) IFRS not yet applied

The following standard has not yet been adopted by the European Union, is not effective for the year ended 31 December 2007 and has not been applied in preparing the financial statements:

IAS 1 "Presentation of Financial Statements" which is effective for periods commencing on or after 1 January 2009. The application of this revised standard in 2007 would not have any material impact on the financial statements. It will impact the presentation and format of the primary statements and notes and these disclosures will be revised accordingly in the 2009 financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**1 Significant accounting policies (continued)****(h) Investment Securities**

All 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 other operating income.

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 Company 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.

(i) Designation of financial instruments

The Company has classified its financial instruments in accordance with IAS 39 'Financial Instruments Recognition and Measurement' as follows:

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

No financial assets are designated as 'held to maturity'.

All derivatives are classified as 'fair value through income statement'.

All other financial assets are classified as 'available for sale'.

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

The resulting treatment of these financial instruments is set out in the accounting policies below.

(j) Leases

Assets leased to customers which transfer substantially all the risk and rewards of ownership to the customer are classified as finance leases. Together with instalment credit agreements, they are recorded at an amount equal to the net investment in the lease, less any provisions for impairment, within loans and advances.

The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease so as to give a constant periodic rate of return on the net investment.

All other assets leased to customers are classified as operating leases. These assets are separately disclosed in the balance sheet and are recorded at cost less depreciation and impairment. Depreciation is calculated on a straight-line basis. Operating lease rentals are recognised in operating income on a straight-line basis over the lease term. Operating lease assets are reviewed for impairment when there is an indication of impairment.

(k) Fees and commissions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**1. Significant accounting policies (continued)****(l) Capitalisation of interest**

Finance costs are capitalised during the construction period of assets that will be subject to operating leases

(m) 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.

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 amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates that are enacted or substantially enacted at the balance sheet date.

(n) Provisions

The Company recognises a provision if there is a present obligation either as a consequence of a legal or constructive obligation resulting from a past event for which it is probable that an outflow of economic resources that can be reliably measured will be required to settle the obligation. Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate. A constructive obligation is only deemed to exist in respect of restructuring provisions once a detailed restructuring plan has been formally approved and the plan has been announced publicly or work on the restructure has commenced.

(o) Netting

Assets and liabilities are shown net where there is a legal right of offset and there is an intention and ability to settle on a net or simultaneous basis.

(p) Trade and other receivables

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

(q) 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 and call accounts.

(r) Derivatives

Derivatives are measured at fair value and initially recognised on the date the contract is entered into. Where the fair value of the derivative is positive, it is carried as a derivative asset and where negative, it is carried as a derivative liability. The gain or loss from changes in fair value is taken through the income statement.

Derivative fair values are determined using valuation techniques that are consistent with techniques commonly used by market participants to price these instruments. These techniques include discounted cash flow analysis and other pricing models. The fair values calculated from these models are regularly compared with prices obtained in actual market transactions to ensure reliability. In all material instances these techniques use only observable market data.

(s) Share capital

Dividends are recognised in the year in which they are paid.

(t) Trade and other payables

Trade and other payables are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant accounting policies (continued)

(u) Foreign currencies

Translations in foreign currency are translated at the foreign exchange rate ruling at the date of transaction

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

(v) Investment in subsidiaries

Investments are stated at cost unless there has been impairment in value in which circumstances a provision is made.

2. Net operating lease income

	2007 £'000	2006 £'000
Operating lease income	7,611	4,837
Operating lease depreciation	(3,554)	(4,075)
Operating expenses	<u>(235)</u>	<u>(235)</u>
	<u>3,822</u>	<u>527</u>

3 Interest receivable and similar income

	2007 £'000	2006 £'000
Receivable from group undertakings	57,110	49,498
Dividend income received from subsidiary	6,737	4,979
Other income	<u>3,557</u>	<u>-</u>
	<u>67,404</u>	<u>54,477</u>

4. Interest expenses and similar charges

	2007 £'000	2006 £'000
Payable to group undertakings	<u>(86,425)</u>	<u>(79,165)</u>
	<u>(86,425)</u>	<u>(79,165)</u>

5. Contingent rent

Finance and operating lease income includes contingent rental rebates as follows

	2007 £'000	2006 £'000
Finance leases	(3,044)	(1,465)
Operating leases	400	(2,312)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Income tax credit/ (charge)

	2007 £'000	2006 £'000
Current tax		
Current tax credit for the period at a rate of 30% (2006 30%)	9,626	12,152
Adjustment in respect of prior years	(390)	(1,268)
Total income tax credit in income statement	9,236	10,884
Deferred tax (note 15)		
Deferred tax charge for the period at a rate of 30% (2006 30%)	(9,916)	(12,503)
Adjustment in respect of prior years	16	99
Adjustment to tax in respect of rate change	10,481	-
	581	(12,404)
Total income tax credit/ (charge) in income statement	9,817	(1,520)

Reconciliation of effective tax rate

The tax assessed for the year is not equal to the standard rate of corporation tax in the UK of 30%

	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	9,042	20,253
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(2,713)	(6,076)
Effects of		
Expenses income not deductible for corporation tax purposes	402	(5)
Adjustment to tax in respect of previous years	(374)	(1,169)
Adjustment to tax in respect of rate change	10,481	-
Non taxable foreign exchange gain	-	4,236
Non taxable dividend income	2,021	1,494
Total income tax credit/ (charge) in income statement	9,817	(1,520)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Operating leased assets

	£'000
Cost	
Balance at 1 January 2006	75,000
Balance at 31 December 2006	<u>75,000</u>
Balance at 1 January 2007	75,000
Addition in year	<u>5,299</u>
At 31 December 2007	<u>80,299</u>
Depreciation and impairment losses	
Balance at 1 January 2006	(15,344)
Depreciation charge for the year	<u>(4,074)</u>
Balance at 31 December 2006	<u>(19,418)</u>
Balance at 1 January 2007	(19,418)
Depreciation charge for the year	<u>(3,554)</u>
At 31 December 2007	<u>(22,972)</u>
Direct cost	
Balance at 1 January 2006	1,832
Cost charge for the year	<u>(235)</u>
Balance at 31 December 2006	<u>1,597</u>
Balance at 1 January 2007	1,597
Cost charge for the year	<u>(235)</u>
At 31 December 2007	<u>1,362</u>
Carrying amounts	
At 1 January 2006	<u>61,488</u>
At 31 December 2006	<u>57,179</u>
At 1 January 2007	<u>57,179</u>
At 31 December 2007	<u>58,689</u>

During the year the company acquired operating leased assets with a cost of £5,299,000 (2006 nil)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Investments

	2007	2006
	£'000	£'000
Investments in subsidiaries		
Balance as at 1 January	114,148	114,148
Additions	8,484	-
Balance as at 31 December	122,632	114,148

The subsidiary undertakings of Bank of Scotland Structured Asset Finance Limited at 31 December 2007 are listed below

Subsidiary Undertakings	Country of incorporation or registration	Nature of Business	Accounting reference date
Barents Leasing Ltd	England & Wales	Leasing	31 March
Halifax Leasing (March No 2) Ltd	England & Wales	Leasing	31 March
Kanto Leasing Ltd	England & Wales	Leasing	31 March
SeaDance Leasing Ltd	England & Wales	Leasing	31 March
SeaSpray Leasing Ltd	England & Wales	Leasing	31 March
Tranquillity Leasing Ltd	England & Wales	Leasing	31 March
Globeagent Ltd	England & Wales	Leasing	31 May
Halifax Leasing (June) Ltd	England & Wales	Leasing	30 June
Ocean Leasing (July) Ltd	England & Wales	Leasing	31 July
Charta Leasing (No 1) Ltd	England & Wales	Leasing	30 September
Halifax Leasing (September) Ltd	England & Wales	Leasing	30 September
Ocean Leasing (No 1) Ltd	England & Wales	Leasing	30 September
Ocean Leasing (No2) Ltd	England & Wales	Leasing	30 September
BOSSAF Rail Ltd	England & Wales	Leasing	31 December
Chariot Finance Ltd	England & Wales	Leasing	31 December
Charta Leasing (No 2) Ltd	England & Wales	Leasing	31 December
Nevis Leasing Ltd	England & Wales	Leasing	31 December
Nordic Leasing Ltd	England & Wales	Leasing	31 December
Oval Leasing Ltd	England & Wales	Leasing	31 December
Pacific Leasing Ltd	England & Wales	Leasing	31 December
SeaBreeze Leasing Ltd	England & Wales	Leasing	31 December
SeaSpirit Leasing Ltd	England & Wales	Leasing	31 December
Shibden Dale Ltd	England & Wales	Investment	31 December
Bank of Scotland LNG Leasing (No 1) Ltd	England & Wales	Leasing	31 December
Katrine Leasing Ltd	England & Wales	Leasing	31 December
BOSSAF Lease 1 Ltd	England & Wales	Leasing	31 December
BOSSAF Lease 2 Ltd	England & Wales	Leasing	31 December
BOSSAF Lease 3 Ltd	England & Wales	Leasing	31 December
BOSSAF Lease 4 Ltd	England & Wales	Leasing	31 December
BOSSAF Lease 5 Ltd	England & Wales	Leasing	31 December

Bank of Scotland Structured Asset Finance Limited directly owns 100% of the issued share capital of each subsidiary undertaking except for Nevis Leasing Ltd and Charta Leasing No 1 and Charta Leasing No 2 where 74%, 50% and 50% are owned respectively. The class of shares held in each subsidiary undertaking are ordinary.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Other current assets

	2007	2006
	£'000	£'000
Group relief	1,848	2,899
Other debtors	9,755	11,116
	<u>11,603</u>	<u>14,015</u>

10. Other liabilities

	2007	2006
	£'000	£'000
Other creditors	<u>3,605</u>	<u>3,280</u>

11. Finance lease receivables

	2007	2006
	£'000	£'000
Gross investment in finance lease receivables		
No later than one year	28,701	26,885
Later than 1 year and no later than 5 years	132,248	134,393
Later than 5 years	<u>838,105</u>	<u>874,655</u>
	999,054	1,035,933
Unearned future finance income on finance leases	<u>(413,981)</u>	<u>(448,096)</u>
Net investment in finance leases	<u>585,073</u>	<u>587,837</u>

The net investment in finance leases may be analysed as follows

	2007	2006
	£'000	£'000
No later than one year	307	-
Later than 1 year and no later than 5 years	24,645	17,883
Later than 5 years	<u>560,121</u>	<u>569,954</u>
Net investment in finance leases	<u>585,073</u>	<u>587,837</u>

The cost of assets acquired during the year for the purpose of finance leasing was £nil (2006 £nil)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Operating lease minimum receivable

The future minimum lease rentals receivable under non cancellable operating leases are as follows

	2007	2006
	£'000	£'000
Less than one year	7,888	7,156
Between one and five years	31,519	28,625
More than five years	<u>9,190</u>	<u>12,524</u>
	<u>48,597</u>	<u>48,305</u>

These amounts represent the lease rentals receivable up to the first option date as mentioned in note 7 above

13. Significant leasing arrangements**Operating leases**

The company leases trains under operating leases over a period of 12 years

Finance leases

The company leases ships and plant and machinery under finance leases over a period of 20 years

14. Cash and cash equivalents

	2007	2006
	£'000	£'000
Bank balances	(4,859)	6
Amounts owed from group undertaking	<u>967,669</u>	<u>972,608</u>
	<u>962,810</u>	<u>972,614</u>
Amounts owed to group undertaking	<u>(1,595,080)</u>	<u>(1,618,667)</u>
Cash and cash equivalents in the statement of cash flows	<u>(632,270)</u>	<u>(646,053)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Deferred tax liabilities

	2007	2006
	£'000	£'000
Deferred tax liabilities	(146,730)	(147,311)
Net position	(146,730)	(147,311)

The movement for the year in the company's net deferred tax position was as follows

	£'000	£'000
At 1 January	(147,311)	(134,907)
Credit/ (charge) to income for the year (note 6)	581	(12,404)
Balance carried forward as at 31 December	(146,730)	(147,311)

Deferred tax liabilities

	Other timing differences	Capital allowances on assets leased to customers	Total
	£'000	£'000	£'000
Balance at 1 January 2007	(939)	(146,372)	(147,311)
Credit to income for the year (note 6)	(176)	757	581
Balance at 31 December 2007	(1,115)	(145,615)	(146,730)

16. Equity

The distributable reserves of the Company are managed through the Group Capital and Funding Policy in order to maximise capital efficiency within the HBOS Group. Dividends are paid from reserves available for distribution to the parent undertaking twice a year according to parameters set out at Group level so as to avoid any build up of reserve balances within the Company.

Reconciliation of movement in equity

	Share Capital	Accumulated Loss	Total
	£'000	£'000	£'000
Balance at 1 January 2006	-	(42,198)	(42,198)
Total recognised income and expense for the year	-	18,733	18,733
Balance at 31 December 2006	-	(23,465)	(23,465)
Balance at 1 January 2007	-	(23,465)	(23,465)
Total recognised income and expense for the year	-	18,857	18,857
Balance at 31 December 2007	-	(4,608)	(4,608)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Equity (continued)

Share capital

	2007	2006
Authorised		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company

17. Financial instruments

Credit risk

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business, principally from leasing activities that bring operating leases into the Company's asset portfolio. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The table below sets out the maximum exposure to credit risk at the balance sheet date.

	2007 £'000	2006 £'000
On Balance Sheet		
Bank balances	(4,859)	6
Due from Group undertaking	967,669	972,608
Finance lease receivables	<u>585,073</u>	<u>587,837</u>
Total	<u>1,547,883</u>	<u>1,560,451</u>

All financial assets are disclosed at amortised cost. Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after an interest payment is missed or when a banking covenant is breached. In determining whether there is objective evidence that an impairment loss has occurred, the present value of the cash flows discounted at the loans original effective rate is compared with the carrying value. If impaired, the carrying value is adjusted and the difference is charged to the income statement. Exposures consist of Bank and other inter-company balances with the HBOS group, operating lease receivables with the commercial sector and other debtors.

Market risk

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

- Interest rates (interest rate risk)
- Residual risk
- Foreign exchange rate (foreign exchange risk)

Interest rate risk

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

Interest rate exposure is concentrated primarily within the UK money markets. The principal internal control metric is the Net Interest Income (NII) sensitivity which measures how NII for the 12 months to the balance sheet date would have reacted to changes in prevailing interest rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Financial instruments (continued)

The table below sets out the sensitivity of the Company's net interest income (NII) over a 12 month period to an immediate up and down 25 basis points change to all floating rate interest bearing assets and liabilities as at the balance sheet date. Where floating rate instruments reprice within six months of the balance sheet date, it has been assumed a full year of interest sensitivity will be experienced whereas instruments repricing between months 6 – 12 will only generate half that amount.

	2007	2006
	£'000	£'000
Impact of +25 bps shift	3,988	4,047
Impact of – 25 bps shift	(3,988)	(4,047)

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

Liquidity risk

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

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

As at 31 December 2007

	Up to 1 mth	1-3 mths	3-12 mths	1-5 yrs	Over 5 yrs	Total
Trade and other payables	(3,605)	-	-	-	-	(3,605)
Due to Group undertakings	(1,595,080)					(1,595,080)
Total liabilities	(1,598,685)			-		(1,598,685)

As at 31 December 2006

	Up to 1 mth	1-3 mths	3-12 mths	1-5 yrs	Over 5 yrs	Total
Trade and other payables	(3,280)	-	-	-	-	(3,280)
Due to Group undertakings	(1,618,667)					(1,618,667)
Total liabilities	(1,621,947)	-	-	-	-	(1,621,947)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Financial instruments (continued)

Fair values

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

	Notes	Carrying amount 2007 £'000	Fair value 2007 £'000	Carrying amount 2006 £'000	Fair value 2006 £'000
Cash balances		962,810	962,810	972,614	972,614
Finance lease receivables	14	585,073	585,073	587,837	587,837
Amounts owed to Group undertaking	14	(1,595,080)	(1,595,080)	(1,618,667)	(1,618,667)
		(47,197)	(47,197)	(58,216)	(58,216)

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

Trade and other payables

For payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other payables are discounted to determine the fair value.

Amounts due to and from Group undertakings

For amounts due from and payable to Group undertakings, the notional amount is deemed to reflect the fair value.

Cash and equivalents

The fair value of unsecured bank facilities with no stated maturity date is the amount repayable on demand.

18. Related parties

Key management personnel and members of their close families have not undertaken any transactions with Bank of Scotland Structured Asset Finance Limited in the normal course of business.

The Company had the following reportable transactions with related parties

Nature of transaction	Outstanding balance at 1 January 2007 £'000	Outstanding balance at 31 December 2007 £'000	Income/expense included in income statement for the year from 1 January to 31 December 2007 £'000	Disclosure in financial statements
Due to Group undertaking	(1,618,667)	(1,595,080)	-	Interest bearing loans and borrowings
Due from Group undertaking	972,608	967,669	-	Interest bearing deposit
Bank	6	(4,859)	-	Cash and cash equivalents
Interest receivable	54,377	-	57,110	Financial Income
Dividend income from subsidiaries	-	-	6,737	Financial Income
Interest payable	79,165	-	86,425	Financial Expense
Audit fees	-	-	194	Administrative expenses

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**19 Parent undertaking**

HBOS plc is the ultimate parent undertaking of Bank of Scotland Structured Asset Finance 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.

Bank of Scotland plc heads the smallest group into which the accounts of the Company are consolidated. The accounts of Bank of Scotland plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

On 17 September 2007 in accordance with the provisions of the HBOS Group Reorganisation Act 2006 ("the Act"), the Governor and Company of the Bank of Scotland registered as a public limited company under the Companies Act and changed its name to Bank of Scotland plc. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of CAPITAL BANK plc, Halifax plc and HBOS Treasury Services plc transferred to Bank of Scotland plc.

Bank of Scotland Structured Asset Finance Ltd will pay 2007 audit fee of £6,550 (2006 £6,550). In addition the company will pay audit fees on behalf of its group undertakings of £186,950 (2006 £177,400).

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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

The Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Company and the performance for that year. 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 judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

We have audited the financial statements of Bank of Scotland Structured Asset Finance Limited for the year ended 31 December 2007 which comprise the Income Statement, Statement of Recognised Income and Expenses, Balance Sheet and the Cash Flow Statement 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 24.

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 if, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2007 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED (CONTINUED)

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The Company is dependent on group funding from HBOS plc in order to support the going concern assumption. The situation explained in note 1 to the financial statements indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditors
Edinburgh

31 OCTOBER 2008