

BANK OF SCOTLAND STRUCTURED ASSET FINANCE LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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COMPANIES HOUSE

COMPANY NUMBER: 2279167

Directors

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

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 2008.

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. 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 19 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.

REPORT OF THE DIRECTORS (continued)**Foreign exchange risk**

Foreign exchange risk arises on borrowings denominated in a currency other than Sterling. An investment in a subsidiary is denominated in US Dollars at historical cost and funded by a US Dollar loan. The foreign exchange revaluations of the loan are included in the income statement. The US Dollar/ Sterling exchange rate decreased considerably in the last quarter of the year contributing to the significant loss. The company takes actions to ensure that all balances in foreign currencies are managed effectively.

Performance

The Company's loss before tax for the year was £63,381,000 (2007: Restated profit - £11,881,000).

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 loss after tax for the Company for the year to 31 December 2008 was £57,127,000 (2007: Restated profit - £20,887,000). No dividends were paid in the year (2007: nil).

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	8 September 2008
K R Glasscoe	5 November 2007	31 August 2009
L J Kavanagh	1 September 2008	-
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	-

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

As set out in the 'Principles underlying Going Concern Assumption' of the Basis of Preparation section of the Notes to the Accounts, the Directors are satisfied that the Group 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

Post balance sheet events

Details of post balance sheet events including the acquisition of HBOS plc by Lloyds TSB Group plc are given in Note 23 to the financial statements.

REPORT OF THE DIRECTORS (continued)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

By Order of the Board,



P Gittins
Secretary

Registered Office

Level 7
Bishopsgate Exchange
155 Bishopsgate
London
EC2M 3YB

INCOME STATEMENTFor the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000 <i>Restated</i>
Finance lease income	5	27,716	24,026
Operating lease income		7,842	7,211
Operating lease depreciation and other costs	2	(4,656)	(3,789)
Impairment loss	13	(12,222)	-
Onerous contract	13	(32,679)	-
Interest receivable and similar income	3	95,628	70,582
Interest expense and similar charges	4	(85,443)	(86,425)
Operating (Loss)/ Profit		(3,814)	11,605
Administrative expenses	6	(2,479)	(1,813)
Foreign exchange (loss)/ gain	7	(57,088)	2,089
(Loss)/ Profit on ordinary activities before taxation		(63,381)	11,881
Income tax credit	8	6,254	9,006
(Loss)/ Profit for the year - all attributable to equity shareholders		(57,127)	20,887

The notes on pages 9 to 26 form part of the financial statements.

STATEMENT OF RECOGNISED INCOME AND EXPENSEFor the year ended 31 December 2008

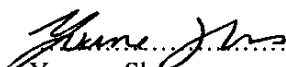
	Notes	2008 £'000	2007 £'000 <i>Restated</i>
(Loss)/ Profit for the year		<u>(57,127)</u>	<u>20,887</u>
Total recognised income and expense for the year		<u>(57,127)</u>	<u>20,887</u>
Attributable to:			
Equity holders		<u>(57,127)</u>	<u>20,887</u>
Total recognised income and expense for the year	17	<u>(57,127)</u>	<u>20,887</u>
Impact of prior year adjustment on retained earnings at 1 January 2008	1 (c)	<u>2,030</u>	<u>-</u>

The notes on pages 9 to 26 form part of these accounts

BALANCE SHEETAs at 31 December 2008

	Notes	2008 £'000	2007 £'000 <i>Restated</i>
Assets			
Operating leased assets	12	63,047	58,689
Finance lease receivables	11	581,820	584,766
Investments	13	150,242	122,632
Total non-current assets		<u>795,109</u>	<u>766,087</u>
Other current assets	10	2,688	10,794
Finance lease receivables	11	1,897	307
Cash balances	9	2,197	-
Amounts due from group undertakings	9	929,798	967,669
Total current assets		<u>936,580</u>	<u>978,770</u>
Total assets		<u>1,731,689</u>	<u>1,744,857</u>
Equity			
Issued capital	17	-	-
Accumulated loss	17	(59,705)	(2,578)
Total equity		<u>(59,705)</u>	<u>(2,578)</u>
Liabilities			
Deferred tax liabilities	15	144,806	146,730
Total non current liabilities		<u>144,806</u>	<u>146,730</u>
Cash balances	9	-	4,859
Amounts due to group undertakings	9	1,609,113	1,595,080
Other liabilities	16	37,475	766
Total current liabilities		<u>1,646,588</u>	<u>1,600,705</u>
Total liabilities		<u>1,791,394</u>	<u>1,747,435</u>
Total equity and liabilities		<u>1,731,689</u>	<u>1,744,857</u>

The notes on pages 9 to 26 form part of these accounts.

Approved by the Board of Directors on 24th September 2009 and signed on its behalf by:

 Yvonne Sharp
 Director

STATEMENT OF CASHFLOWSFor the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			<i>Restated</i>
(Loss)/ Profit before taxation		(63,381)	11,881
Adjustments for:			
Depreciation		4,420	3,554
Amortised initial direct cost		236	235
Foreign exchange loss/ (profit)		57,088	(2,089)
Decrease in debtors		9,388	4,125
Increase/(decrease) in creditors		36,709	(2,514)
Cash generated from operations		44,460	15,192
Income taxes received		4,404	10,285
Net cash from operating activities		48,864	25,477
Cash flows from investing activities			
Purchase of operating lease assets		(9,014)	(5,299)
Investment in subsidiaries		(39,832)	(8,484)
Impairment of investment in subsidiaries		12,222	-
Net cash used in investing activities		(36,624)	(13,783)
Net increase in cash and cash equivalents		12,240	11,694
Cash and cash equivalents at 1 January		(632,270)	(646,053)
Effect of exchange rate fluctuations		(57,088)	2,089
Cash and cash equivalents at 31 December	9	(677,118)	(632,270)

The notes on pages 9 to 26 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 24th September 2009.

(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 2008 financial statements set out on pages 5 to 26 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. 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.

(b) Basis of preparation

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 Company has accumulated losses since commencement of operations. Significant foreign exchange movements with US Dollar and impairment of an investment contributed to the current year loss on ordinary activities.

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.

During 2008, global financial markets experienced difficult conditions which have been characterised by a marked reduction in liquidity. As a consequence of this, governments and central banks carried out a series of actions to address the lack of liquidity within their respective banking systems. In the UK these actions have included the introduction by the Bank of England of liquidity support, through schemes (collectively "Bank of England facilities") such as the extended Long-Term Repo open market operations and the Special Liquidity Scheme ('SLS') whereby banks and building societies can exchange eligible securities for UK Treasury bills; and the creation of a credit guarantee scheme by HM Treasury, providing a government guarantee for certain short and medium term senior debt securities issued by eligible banks. During 2008 HBOS plc, has made use of these measures in order to maintain and improve a stable funding position.

In the context of this continued turbulence and uncertainty in the financial markets, combined with a deteriorating global economic outlook, HBOS plc has also taken steps to strengthen its capital position in order to provide a buffer against further shocks arising from the financial system and to ensure that it remains competitive. On 15 January 2009, in conjunction with the takeover of HBOS plc by Lloyds TSB plc (Note 23), HBOS plc raised £11,345m (net after costs) in preference and ordinary share capital.

On 16 January 2009, following completion of the acquisition of HBOS plc and its subsidiaries by Lloyds Banking Group plc, the Company became a wholly owned subsidiary and became dependent upon the ultimate parent and its banking subsidiaries for its capital, liquidity funding needs.

There is a risk despite the substantial measures taken so far by governments that further deterioration in the markets could occur. In addition the economic conditions in the UK are deteriorating more quickly than previously anticipated placing further strain on the Lloyds Banking Group's capital resources. The key dependencies on successfully funding the Lloyds Banking Group's balance sheet include the continued functioning of the money and capital markets at their current levels; the continued access of the Lloyds Banking Group to central bank and Government sponsored liquidity facilities including access to HM Treasury's credit guarantee scheme and access to the Bank of England's various facilities; limited further deterioration in the Lloyds Banking Group's credit ratings; and no significant or sudden withdrawal of deposits resulting in increased reliance on money markets or Government support schemes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

Based upon projections prepared by Lloyds Banking Group plc management which take into account the completion of the acquisition on 16 January 2009 of HBOS plc and its subsidiaries (Note 23) together with the Lloyds Banking Group's current ability to fund in the market and the assumption that announced government sponsored schemes will continue to be available, the directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. The Company has received confirmation that it is the current intention of Lloyds Banking Group plc to ensure that the Company, as a subsidiary of HBOS plc, should have at all times for the foreseeable future access to adequate resources to continue to trade and meet their liabilities as they fall due. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

(c) Prior year adjustment

During the year the directors of the company identified an amount of deferred income, and associated release through the income statement, as being incorrectly included in the prior year financial statements. The amounts arose due to a system mapping error as an incorrect journal was posted to the company's accounting records. The directors believed that these related to a particular lease, however, it has since come to light that they related to a lease within another group entity.

The financial statements of 2007 have been restated to reflect the reversal of these entries which has no impact on accounting periods prior to 2007. The effect of this restatement is noted below:

	Affect on 2007 Financial Statements
	£'000
Reduction in finance lease income	(1,543)
Increase in interest receivable and similar income	4,382
Net increase in income	2,839
Reduction in income tax credit	(809)
Increase in profit for the year	2,030
Reduction in income tax receivable (included in other current assets)	(809)
Reduction in deferred income (included in accruals)	(2,839)
Increase in equity	2,030

In addition, there have been certain income statement reclassifications in the prior year to ensure consistency with current year.

(d) IFRS applied in 2008

The following IFRS amendments have been applied in 2008: Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. There have been no reclassifications in the year. The recognition and measurement principles of IAS 39 are followed. Appropriate disclosures on financial instruments are made within Note 17 of the accounts.

(e) Recognition and derecognition of financial assets and liabilities

The Company recognises financial assets and liabilities upon origination.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Group is recognised as a separate asset.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**1. Significant accounting policies (continued)****(f) 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.

Fees and commission included in the effective interest calculation are those that are incremental and directly attributable to the origination of the product and which are integral to the yield of the product. These include arrangement fees, incentives such as cash backs, intermediary fees and commissions, high loan to value fees and procurement fees.

(g) Critical accounting judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies which are set out on pages 9 to 14. These judgements are continually reviewed and evaluated based on historical experience and other factors. The principal critical accounting judgements made by the Company that have a material financial impact on the financial statements are as follows:

i) Designation of financial instruments

The Company has classified its financial instruments in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. In some instances the classification is prescribed whilst in others the group/Company is able to exercise judgement in determining the classification 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';

The Company has chosen not to designate any financial assets as 'held to maturity';

All other financial assets are classified as 'available for sale'; and

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

The accounting treatment of these financial instruments is set out in the relevant accounting policy.

ii) 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 their estimated useful lives. Finance and operating lease assets are regularly reviewed for impairment.

ii) Onerous contract

The Company deemed the contract for acquiring Katrine Leasing Limited as onerous. The unavoidable costs of satisfying the remaining contractually obligated payments were considered to exceed the economic benefit expected to be received under the contract.

Contractually obligated payments were accrued within other liabilities (note 16) and classified as a separate expense within the income statement.

The investment was considered for impairment in accordance with accounting policy 1(s).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant accounting policies (continued)

(h) Critical accounting estimates

The preparation of the financial statements requires the Company to make estimations where uncertainty exists. The principal critical accounting estimates made by the Group are considered below. Disclosures about estimates and the related assumptions are also included in the appropriate Note.

i) Fair values

The designation of financial instruments for measurement purposes is set out under the critical accounting judgements above and the valuation methodologies for financial instruments are set out in the appropriate accounting policies.

Derivatives and other financial instruments classified as at fair value through the income statement or available for sale are measured at fair value.

ii) 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 may be undertaken on either a portfolio basis or individually for individually significant exposures. In applying the portfolio basis the Company makes use of various statistical modelling techniques which are specific to different portfolio types. 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.

(i) Effective interest rate

Revenue on financial instruments are recognised on an effective interest rate basis. This calculation takes into account interest received or paid and fees and commissions paid or received that are integral to the yield as well as incremental transaction costs and all other premiums and discounts. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial instrument at initial recognition.

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 to estimate redemption profiles and derive the expected cash flows. A number of relevant considerations are taken into account to estimate the cash flows of individually significant corporate balances, including previous experience of customer behaviour, credit scoring of the customer and anticipated future market conditions at the date of acquisition.

(j) Capitalisation of interest

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

(k) 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.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(m) Netting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of offset and there is an intention and ability to settle on a net or simultaneous basis.

Where master netting agreements allow for offset only on default by one of the parties, the Company presents the disclosures on a gross basis.

(n) Trade and other receivables

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

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash and balances at central banks that are freely available, and loans and advances to banks with an original maturity of three months or less excluding financial assets that are held for trading purposes.

(p) Share capital

Dividends are recognised in the year in which they are paid. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(q) Trade and other payables

Trade and other payables are stated at cost.

(r) Foreign currencies

Translations in foreign currency are translated at the foreign exchange rate prevailing at 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 at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities carried at historical cost are translated using the historical exchange rate.

Non-monetary assets and liabilities carried at fair value are translated at exchange rates on the date the fair value is determined. Exchange differences arising are recognised in the income statement.

(s) Investment in subsidiaries

Investments in subsidiaries are included in the Company's financial statements. These comprise equity investments in, and capital contributions to subsidiary entities. These are carried at cost less impairment provisions. At each reporting date an assessment is undertaken to determine if there is any indication of impairment. This assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the subsidiary. If there is an indication of impairment, an estimate of the recoverable amount is made. If the carrying value exceeds the recoverable amount then a provision for impairment is made to reduce the carrying value to the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**1. Significant accounting policies (continued)****(t) IFRS and IFRIC not yet applied**

The following standards and interpretations have been adopted by the European Union but are not effective for the year ended 31 December 2008 and have not been applied in preparing the financial statements:

Amendments to IAS 1 'Presentation of Financial Statements: A Revised Presentation' which is effective for periods commencing on or after 1 January 2009. The revised standard will affect the presentation of owner changes in equity and of comprehensive income. Adoption will not change the recognition, measurement or disclosure of specific transactions or events as required by other standards.

Revised IAS 23 'Borrowing Costs' which is applicable to borrowing costs related to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The application of this revised standard in 2008 would not have had a material impact on the financial statements.

Amendments to IAS 32 and IAS 1 'Puttable Financial Instruments and Obligations Arising on Liquidation' which is effective for periods commencing on or after 1 January 2009. This amendment addresses the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. Where these instruments represent a residual interest in the net assets of an entity and meet certain other conditions they should be classified as equity rather than liabilities. The Company has no items currently classified as liabilities that would need to be presented as equity as a result of this amendment because these instruments fail to meet the criteria for such a reclassification.

IFRS 1 'First-time adoption of IFRS' which is effective for periods commencing on or after 1 January 2009. As the Group and Company reports under IFRS, the application of this amendment in 2008 would not have any effect upon the financial statements.

Amendments to IAS 27 'Consolidated and Separate Financial Statements' which is effective for periods commencing on or after 1 January 2009. This amendment removes the cost method of accounting for an investment in a subsidiary. Application in 2008 would not have had an effect upon the financial statements.

'Improvements to IFRS 2008'. The majority of these improvements are effective for periods commencing on or after 1 January 2009 and their application would not have had a material effect upon the financial statements.

Amendments to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items' which is effective for periods commencing on or after 1 July 2009. This amendment clarifies what can be designated as a hedged item in a hedge accounting relationship and application in 2008 would not have had a material impact upon the financial statements.

Revised IFRS 3 'Business Combinations' and amended IAS 27 'Consolidated and Separate Financial Statements'. These changes are effective for periods beginning on or after 1 July 2009 with the main effects being that the cost of investment will comprise the consideration paid to the vendors for equity with acquisition costs being expensed immediately; goodwill will be accounted for only upon the acquisition of a subsidiary as subsequent changes in interest will be recognised in equity and only upon the loss of control will any profit or loss be recognised in income. Further, any pre-existing stake held will, where control is subsequently gained, be revalued with any profit or loss arising being booked to income. These changes will affect any the manner in which acquisitions and disposals made by the Company are accounted for after the implementation of the revised Business Combinations standard and related revisions to IAS 27.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Operating lease depreciation and other costs

	2008	2007
	£'000	£'000
Operating lease depreciation	(4,420)	(3,554)
Operating lease expenses, including amortisation of initial direct costs	(236)	(235)
	<u>(4,656)</u>	<u>(3,789)</u>

3. Interest receivable and similar income

	2008	2007
	£'000	£'000
		<i>Restated</i>
Interest receivable from group undertakings – note 22	55,797	55,905
Dividend income received from subsidiaries – note 22	39,831	6,737
Other income	-	7,940
	<u>95,628</u>	<u>70,582</u>

4. Interest expenses and similar charges

	2008	2007
	£'000	£'000
Payable to group undertakings – note 22	(83,553)	(86,425)
Other expenses	(1,890)	-
	<u>(85,443)</u>	<u>(86,425)</u>

5. Contingent rent

Finance lease income includes contingent rental rebates as follows:

	2008	2007
	£'000	£'000
Contingent rent	(1,413)	(3,044)

The above calculation for 2008 excluded variable rate adjustment attributable to subsidiary lease agreements.

6. Administrative expenses

	2008	2007
	£'000	£'000
Audit fees - note 21	208	194
Other expenditure	2,271	1,619
	<u>2,479</u>	<u>1,813</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Foreign exchange (loss)/ gain

	2008	2007
	£'000	£'000
Foreign denominated loan revaluation	(36,603)	1,980
Foreign exchange differences	(20,485)	109
	<u>(57,088)</u>	<u>2,089</u>

An investment in a subsidiary is denominated in US Dollars at historical cost and funded by a US Dollar loan. The foreign exchange revaluation of the loan is included in the loss reported through the income statement.

The US Dollar to Sterling exchange rate decreased considerably in the last quarter of the year contributing to the significant loss.

8. Income tax credit/ (charge)

	2008	2007
	£'000	£'000
Current tax		<i>Restated</i>
Current tax credit for the period at a rate of 28.5% (2007: 30%)	3,984	8,815
Adjustment in respect of prior years	346	(390)
Total income tax credit in income statement	<u>4,330</u>	<u>8,425</u>
Deferred tax (note 15)		
Deferred tax charge for the period at a rate of 28.5% (2007: 30%)	1,927	(9,916)
Adjustment in respect of prior years	(3)	16
Adjustment to tax in respect of rate change	-	10,481
	<u>1,924</u>	<u>581</u>
Total income tax credit in income statement	<u>6,254</u>	<u>9,006</u>

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%.

	2008	2007
	£'000	£'000
		<i>Restated</i>
(Loss) / Profit on ordinary activities before taxation	<u>(63,381)</u>	<u>11,881</u>
Loss/ (Profit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	18,063	(3,565)
Effects of:		
Expenses income not deductible for corporation tax purposes	(242)	996
Adjustment to tax in respect of previous years	344	(374)
Adjustment to tax in respect of rate change	(34)	10,522
Adjustment to tax in respect of foreign exchange movements	(10,432)	(594)
Impairment of investment in subsidiaries	(12,797)	-
Non taxable dividend income	<u>11,352</u>	<u>2,021</u>
Total income tax credit in income statement	<u>6,254</u>	<u>9,006</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Cash and cash equivalents

	2008	2007
	£'000	£'000
Bank balances	2,197	(4,859)
Amounts owed from group undertakings – note 22	929,798	967,669
	<u>931,995</u>	<u>962,810</u>
Amounts owed to group undertakings – note 22	(1,609,113)	(1,595,080)
Cash and cash equivalents in the statement of cash flows	<u>(677,118)</u>	<u>(632,270)</u>

10. Other current assets

	2008	2007
	£'000	£'000
		<i>Restated</i>
Group relief	966	1,039
Other debtors	1,722	9,755
	<u>2,688</u>	<u>10,794</u>

11. Finance lease receivables

	2008	2007
	£'000	£'000
Gross investment in finance lease receivables:		
No later than one year	30,207	28,701
Later than 1 year and no later than 5 years	143,488	132,248
Later than 5 years	796,650	838,105
	<u>970,345</u>	<u>999,054</u>
Unearned future finance income on finance leases	(386,628)	(413,981)
Net investment in finance leases	<u>583,717</u>	<u>585,073</u>

The net investment in finance leases may be analysed as follows:

	2008	2007
	£'000	£'000
No later than one year	1,897	307
Later than 1 year and no later than 5 years	32,803	24,645
Later than 5 years	549,017	560,121
Net investment in finance leases	<u>583,717</u>	<u>585,073</u>

The cost of assets acquired during the year for the purpose of finance leasing was £nil (2007: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Operating leased assets

	£'000
Cost	
Balance at 1 January 2007	75,000
Addition in year	<u>5,299</u>
Balance at 31 December 2007	<u>80,299</u>
 Balance at 1 January 2008	 80,299
Addition in year	<u>9,014</u>
At 31 December 2008	<u>89,313</u>
 Depreciation and impairment losses	
Balance at 1 January 2007	(19,418)
Depreciation charge for the year	<u>(3,554)</u>
Balance at 31 December 2007	<u>(22,972)</u>
 Balance at 1 January 2008	 (22,972)
Depreciation charge for the year	<u>(4,420)</u>
At 31 December 2008	<u>(27,392)</u>
 Direct cost	
Balance at 1 January 2007	1,597
Cost charge for the year	<u>(235)</u>
Balance at 31 December 2007	<u>1,362</u>
 Balance at 1 January 2008	 1,362
Cost charge for the year	<u>(236)</u>
At 31 December 2008	<u>1,126</u>
 Carrying amounts	
At 1 January 2007	<u>57,179</u>
At 31 December 2007	<u>58,689</u>
 At 1 January 2008	 58,689
At 31 December 2008	<u>63,047</u>

During the year the company acquired operating leased assets with a cost of £9,014,000 (2007: £5,299,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Investments

	2008	2007
	£'000	£'000
Investments in subsidiaries		
Balance as at 1 January	122,632	114,148
Additions	39,832	8,484
Impairment loss	(12,222)	-
Balance as at 31 December	150,242	122,632

The subsidiary undertakings of Bank of Scotland Structured Asset Finance Limited at 31 December 2008 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 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, 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. On 19 December 2009, Bank of Scotland Structured Asset Finance Limited disposed of its interest in the dormant company BOSSAF Lease 1 Limited.

During the year the Company made additional acquisition premium payments of £39,832,000 for the purchase of Katrine Leasing Limited. These payments were made in accordance with the agreed terms stated in the acquisition agreement.

As per accounting policy 1(s) all investments were reviewed for impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Investments (continued)

For the year ended 31 December 2008 the investment in Katrine Leasing Ltd was written down by £12,222,000 to reflect its value in use from guaranteed future cash flows.

A contractual obligation of £32,679,000 for acquisition premium payments due in 2009 attributable to Katrine Leasing Ltd was accrued as an onerous contract within other liabilities (note 16), and charged through the income statement.

14. Operating lease minimum receivable

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

	2008	2007
	£'000	£'000
Less than one year	8,519	7,888
Between one and five years	32,540	31,519
More than five years	3,034	9,190
	<u>44,093</u>	<u>48,597</u>

These amounts represent the lease rentals receivable up to the first option date as disclosed in note 12.

15. Deferred tax liabilities

	2008	2007
	£'000	£'000
Deferred tax liabilities	<u>144,806</u>	<u>146,730</u>
Net position	<u>144,806</u>	<u>146,730</u>

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

	£'000	£'000
At 1 January	146,730	147,311
Charge to income for the year - note 8	<u>(1,924)</u>	<u>(581)</u>
Balance carried forward as at 31 December	<u>144,806</u>	<u>146,730</u>

Deferred tax liabilities	Other timing differences – finance lease expenses	Capital allowances on assets leased to customers	Total
	£'000	£'000	£'000
At 1 January 2008	1,115	145,615	146,730
Charge to income for the year - note 8	<u>(374)</u>	<u>(1,550)</u>	<u>(1,924)</u>
Balance at 31 December 2008	<u>741</u>	<u>144,065</u>	<u>144,806</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Other liabilities

	2008 £'000	2007 £'000 <i>Restated</i>
Other creditors	4,796	766
Onerous contract – note 13	32,679	-
	<u>37,475</u>	<u>766</u>

17. 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 £'000	Accumulated Loss £'000	Total £'000
Balance at 1 January 2007	-	(23,465)	(23,465)
Total recognised income and expense for the year, as reported	-	18,857	18,857
Balance at 31 December 2007, as reported	-	(4,608)	(4,608)
Effect of restatement on income statement and reserves	-	2,030	2,030
Balance at 31 December 2007, restated	-	(2,578)	(2,578)
Balance at 1 January 2008, restated	-	(2,578)	(2,578)
Total recognised income and expense for the year	-	(57,127)	(57,127)
Balance at 31 December 2008	-	(59,705)	(59,705)

Share capital

	2008	2007
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.

18. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. 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.

Credit risk (continued)

	2008	2007
	£'000	£'000
<u>On Balance Sheet</u>		
Bank balances	2,197	(4,859)
Due from group undertaking	929,798	967,669
Other current assets	1,722	9,755
Finance lease receivables	583,717	585,073
Total	1,517,434	1,557,638

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.

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 100 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.

	Assets		Liabilities	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Impact of +100 bps shift	9,337	9,794	(16,466)	(16,007)
Impact of – 100 bps shift	(9,337)	(9,794)	16,466	16,007

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Financial instruments (continued)

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.

Foreign exchange risk

Foreign exchange risk arises on borrowings denominated in a currency other than Sterling. An investment in a subsidiary is denominated in US Dollars at historical cost and funded by a US Dollar loan. The foreign exchange revaluations of the loan are included in the income statement

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 2008

	Up to 1 mth	1-3 mths	3-12 mths	1-5 yrs	Over 5 yrs	Total
Other liabilities	(37,475)	-	-	-	-	(37,475)
Due to group undertakings	(1,609,113)	-	-	-	-	(1,609,113)
Total liabilities	(1,646,588)	-	-	-	-	(1,646,588)

As at 31 December 2007

<i>Restated</i>	Up to 1 mth	1-3 mths	3-12 mths	1-5 yrs	Over 5 yrs	Total
Other liabilities	(766)	-	-	-	-	(766)
Due to group undertakings	(1,595,080)	-	-	-	-	(1,595,080)
Total liabilities	(1,595,846)	-	-	-	-	(1,595,846)

Fair values

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

	Notes	Carrying amount 2008 £'000	Fair value 2008 £'000	Carrying amount 2007 £'000	Fair value 2007 £'000
				<i>Restated</i>	<i>Restated</i>
Cash balances	9	931,995	931,995	962,810	962,810
Finance lease receivables	11	583,717	583,717	585,073	585,073
Other debtors	10	1,722	1,722	9,755	9,755
Other liabilities	16	(37,475)	(37,475)	(766)	(766)
Amounts owed to group undertaking	9	(1,609,113)	(1,609,113)	(1,595,080)	(1,595,080)
		(129,154)	(129,154)	(38,208)	(38,208)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**19. Financial instruments (continued)**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.

Cash and equivalents

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

Finance lease receivables

The rental streams on underlying finance lease agreements re-price on a three month variable basis and there is considered to be no material difference between fair value and carrying value.

Other debtors

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

Other liabilities

For creditors 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 Group undertakings

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

20. Going concern

The financial statements have been prepared on a going concern basis, which assumes the continued support of other group companies. If this support were not forthcoming the company would have to reduce the monetary value of assets to recoverable amounts, to provide for further liabilities that might arise and reclassify all assets and liabilities as current assets and liabilities.

21. Parent undertaking

As at 31 December 2008 the Company's immediate parent company was Bank of Scotland plc. The company regarded by the directors as the ultimate parent company at 31 December 2008 was HBOS plc, a limited liability company incorporated and domiciled in Scotland, which was also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Bank of Scotland plc was the parent undertaking of the smallest such group of undertakings.

From 16th January 2009, Bank of Scotland Structured Asset Finance Limited's ultimate parent undertaking and controlling party is Lloyds Banking Group plc (formerly Lloyds TSB Group) which is incorporated in Scotland. Lloyds Banking Group plc will produce consolidated accounts for the year ended 31 December 2009. Copies of the annual report and accounts of Lloyds TSB Group plc for the year ended 31 December 2008 may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN.

Prior to 16th January 2009, HBOS plc was the ultimate parent undertaking of Bank of Scotland Structured Asset Finance Limited. Copies of the annual report and accounts of HBOS plc for the year ended 31 December 2008 may be obtained from HBOS plc's registered office at The Mound, Edinburgh, EH1 1YZ.

Bank of Scotland Structured Asset Finance Limited will pay the 2008 audit fee of £6,550 (2007: £6,550). In addition the company will pay audit fees on behalf of its group undertakings of £201,400 (2007: £186,950).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. 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 2008	Outstanding balance at 31 December 2008	Income/expense included in income statement for the year from 1 January to 31 December 2008	Disclosure in financial statements
	£'000	£'000	£'000	
Due to group undertaking	(1,595,080)	(1,609,113)	-	Interest bearing loans and borrowings
Due from group undertaking	967,669	929,798	-	Interest bearing deposit
Bank balances	(4,859)	2,197	-	Cash and cash equivalents
Other liabilities	-	(34,887)	-	Cash and cash equivalents
Interest receivable	57,110	-	55,797	Financial Income
Dividend income from subsidiaries	-	-	39,831	Financial Income
Interest payable	86,425	-	83,553	Financial Expense
Audit fees	-	-	207	Administrative expenses

The Company receives fixed rate funding directly from group Treasury. Interest is charged at rates ranging between 4.1% and 6.4%. In the year to 31 December 2008 £83,553,000 was paid (2007 - £86,425,000).

At 31 December 2008 the total funding due to Treasury was £1,609,113,000 (2007 - £1,595,080,000).

Amounts due from group undertakings are charged interest ranging between 5.42% and 5.91%. In the year to 31 December 2008 £55,797,000 was received (2007 - £57,110,000).

At 31 December 2008 amounts due from group undertakings was £929,798,000 (2007 - £967,669,000).

The Company owns 74% of Nevis Leasing Limited and received dividends of £8,753,000 in the year to 31 December 2008. A deferred acquisition premium of £6,545,000 was paid for the purchase of the holding. Both transactions were recorded in a control account and closing balance of £2,208,000 disclosed within other liabilities (note 16). The balance will be recognised through the income statement as the benefit of Nevis Leasing Limited's tax losses are released.

During the year to 31 December 2008, the Company made available a loan facility to Nevis Leasing Limited for £3,750,000 to fund the acquisition of one ship. The loan is repayable in instalments coinciding with rental payments. The entire balance was outstanding at of 31 December 2008 and included in amounts due from group undertakings.

The Company owns 100% of Katrine Leasing Limited and received dividends of £39,831,000 in the year to 31 December 2008 (note 3). These receipts coincide with the acquisition premium payments capitalised as additional costs of investments and partially impaired (note 13).

The contract was considered to be onerous at year end and contractually obligated payments for 2009 of £32,679,000 were accrued within other liabilities (note 13).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**23. Post balance sheet events**

On 18 September 2008, with the support of the UK Government, the boards of HBOS plc ('HBOS') and Lloyds TSB Group plc ('Lloyds TSB') announced that they had reached agreement on the terms of the recommended acquisition of HBOS by Lloyds TSB. The terms of the acquisition were subsequently amended, as announced on 13 October 2008, at the same time as the announcement of the participation by HBOS and Lloyds TSB in the Government's action plan to recapitalise some of the major UK banks. The acquisition was to be implemented by means of a scheme of arrangement with a separate scheme of arrangements in relation to preference shares, under sections 895 to 899 of the Companies Act 2006.

On 12 January 2009 the Court of Session in Edinburgh, Scotland made an order sanctioning the scheme of arrangement for the acquisition and the preference share scheme of arrangement. The last day of trading in HBOS ordinary and preference shares was 14 January 2009.

On 15 January 2009 HBOS raised £11.5bn of capital (before costs and expenses) through an issue of £8.5bn of new ordinary shares under a placing with HM Treasury subject to clawback by existing shareholders, and an issue to HM Treasury of £3bn of new preference shares. Lloyds TSB raised £4.5bn (before costs and expenses) through an issue of £3.5bn of new ordinary shares under a placing with HM Treasury subject to clawback by existing shareholders, and an issue to HM Treasury of £1bn of new preference shares.

On 16 January 2009 the Lloyds TSB acquisition of HBOS completed following final court approval and Lloyds TSB was renamed Lloyds Banking Group plc. The exchange of HBOS shares for Lloyds Banking Group shares took place at an exchange ratio of 0.605 of a new Lloyds Banking Group share for every one HBOS share held. As a result, the UK Government through HM Treasury owned approximately 43.4% of the enlarged ordinary share capital of Lloyds Banking Group. In addition, each class of preference share issued by HBOS, including the preference shares issued to HM Treasury in the capital raising was replaced with an equal number of new Lloyds Banking Group preference shares.

HBOS ordinary and preference shares were de-listed from the Official List of the UK Listing Authority and admission to trading on the London Stock Exchange was cancelled on 19 January 2009 when trading in the new Lloyds Banking Group shares commenced.

On 7 March 2009, the Company's ultimate parent undertaking, Lloyds Banking Group plc ("LBG"), announced its intention to participate in the Government's Asset Protection Scheme in respect of assets and exposures on LBG's consolidated balance sheet with an aggregate book value of approximately £250bn subject to payment of a fee to HM Treasury of £15.6bn which will be amortised over an estimated 7 year period. The proceeds of this fee will be applied by HM Treasury in subscribing for an issue of "B" shares of LBG, carrying a dividend of the greater of 7 per cent per annum and 125 per cent of the dividend on ordinary shares. Participation in the Scheme is subject to approval by eligible LBG shareholders.

On 11 June 2009, LBG announced the completion of a placing and compensatory open offer which resulted in the issuance of £4bn additional ordinary share capital and the redemption of £4bn preference shares held by HM Treasury.

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 2008 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 27.

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

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditors
Edinburgh

KPMG Audit Plc

24 September 2009