WEST CRAIGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Company Number SC226585

Directors

J K Cruickshank
J C O'Neil

Secretary

L J Edwards

Registered office

Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Auditors

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

Bankers

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

REPORT OF THE DIRECTORS

The Directors submit their report and audited accounts of the Company for the year ended 31 December 2008.

Activity

The Company's principal activity is the ownership and development of land and no change is expected in that activity.

Risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the HBOS plc Group ('the Group'). Exposure to credit risk and interest rate risk arises in the normal course of the Company's business. These risks are discussed below and supplementary qualitative and quantitative information is provided by Note 13 to the financial statements.

Credit risk

Credit exposures arise principally from cash and cash equivalent balances with another Group company.

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 as demonstrated by the Net Interest Income Sensitivity in Note 13.

Results and dividends

The profit after tax for the Company for the year to 31 December 2008 was £10,843 (2007: loss of £10,945). No dividends were paid during the year (2007: £nil).

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 15 to the financial statements.

Directors and their interests

The Directors at the date of this report are as stated on page 2.

Company secretary

L J Edwards

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 ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board,

L J Edwards
Secretary

2009

Income statement

For the year ended 31 December 2008

	Note	2008	2007
		£	£
Sale of crop		-	144,927
Cost of sales		-	(100,699)
Gross profit/(loss)		-	44,228
Profit on disposal of investments		-	-
Operating expenses	2	**17,643**	(16,049)
Other income	3	**58,942**	21,176
Other expenses	4	**(1,500)**	(1,500)
Net other income		**57,442**	19,676
Operating profit before financing costs		**75,085**	47,855
Financial income	5	**526**	852
Financial expense	5	**(60,445)**	(64,343)
Net financing costs		**(59,919)**	(63,491)
Profit/(Loss) before tax		**15,166**	(15,636)
Income tax (charge)/credit	6	**(4,323)**	4,691
Profit/(Loss) after tax for the year		**10,843**	(10,945)
Attributable to:			
Equity Shareholders		**10,843**	(10,945)
Profit/(Loss) for the year		**10,843**	(10,945)

The notes on pages 9 to 19 form part of these accounts.

Statement of recognised income and expense

For the year ended 31 December 2008

	Note	2008	2007
		£	£
Profit/(Loss) for the year		**10,843**	(10,945)
Total recognised income and expense for the year	11	**10,843**	(10,945)
Attributable to:			
Equity Shareholders		**10,843**	(10,945)
(Loss)/profit for the year		**10,843**	(10,945)

The notes on pages 9 to 19 form part of these accounts.

Balance sheet

As at 31 December 2008

	Note	2008	2007
		£	£
Assets			
Inventories	8	**1,799,389**	1,637,968
Income tax receivable	7	**-**	4,691
Trade and other receivables	9	**9,281**	11,793
Cash and cash equivalents	10	**11,726**	78,500
Total current assets		**1,820,396**	1,732,952
Total assets		**1,820,396**	1,732,952
Equity			
Issued capital	11	**100**	100
Retained earnings	11	**381,752**	370,909
Total equity		**381,852**	371,009
Liabilities			
Amount due to fellow subsidiary undertaking		**1,358,443**	1,261,253
Income tax payable	7	**4,323**	-
Trade and other payables	12	**75,778**	100,690
Total current liabilities		**1,438,544**	1,361,943
Total liabilities		**1,438,544**	1,361,943
Total equity and liabilities		**1,820,396**	1,732,952

The notes on pages 9 to 19 form part of these accounts.

Approved by the board at a meeting on 31st MARCH 2009 and signed on its behalf by:

.... Director

Statement of cash flows

For the year ended 31 December 2008

	Note	2008 £	2007 £
Cash flows from operating activities			
Operating profit		75,085	47,855
(Increase) in inventories		(132,163)	(36,000)
(Increase) in trade and other receivables		(25,680)	(42,119)
Increase in amounts due to fellow subsidiary undertaking		67,856	147,038
(Decrease)/increase in trade and other payables		(57,085)	(122,783)
Profit on sale		-	-
Cash generated from operations		(71,987)	(6,009)
Interest paid		(4)	(10)
Income taxes received		4,691	12,053
Net cash from operating activities		(67,300)	6,034
Cash flows from investing activities			
Interest received		526	852
Sales of investment in subsidiary undertaking		-	-
Net cash from investing activities		526	852
Cash flows from financing activities			
Dividends paid		-	-
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		(66,774)	6,886
Cash and cash equivalents at 1 January		78,500	71,614
Cash and cash equivalents at 31 December	10	11,726	78,500

The notes on pages 9 to 19 form part of these accounts.

Notes to the financial statements

1. Significant accounting policies

West Craigs Limited (the "Company") is a company domiciled in Scotland.

The financial statements were authorised for issue by the Directors on 31st MARCH 2009.

(a) 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.

(b) Principles underlying going concern assumption

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 to the financial systems and to ensure that it remains competitive. On 15 January 2009, in conjunction with the takeover of HBOS plc by Lloyds TSB Group plc, HBOS plc raised £11,345m (net after costs) in preference and ordinary share capital.

On 16 January 2009, following completion of the acquisition of the Group by Lloyds Banking Group plc, the Group 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.

Based upon projections prepared by Lloyds Banking Group plc management which take into account the acquisition on 16 January 2009 of HBOS plc and its subsidiaries 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 have 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.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(c) *Statement of compliance*

The financial statements of West Craigs Ltd comprise the Income Statement, Balance Sheet, Statement of Cash Flows and Statement of Recognised Income and Expense together with the related Notes to the Accounts.

The 2008 statutory financial statements set out on pages 5 to 19 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 has not utilised the "carve-out" provisions in respect of full fair value and portfolio hedging of core deposits in IAS 39 'Financial Instruments: Recognition and Measurement' as adopted by the European Union and consequently, 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. Additionally the Company has applied Financial Reporting Standard 27 'Life Assurance' issued by the UK Accounting Standards Board as appropriate.

(d) Basis of preparation

The financial statements have been prepared under the historical cost basis.

(e) 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 2008 and has not been applied in preparing the financial statements.

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.

IAS 1 'Presentation of Financial Statements: A Revised Presentation' which is effective for periods commencing on or after 1 January 2009. The revised standard in 2008 would not have had any financial 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.

(f) Inventories

Inventories are stated at lower of cost and net realisable value.

(g) Trade and other receivables

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

(h) 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 balances at banks that are freely available.

Notes to the financial statements (continued)

Significant accounting policies (continued)

(i) Impairment

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

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

(j) Trade and other payables

Trade and other payables are stated at cost.

(k) Net financing costs

Net finance costs relate to interest income and interest payable on borrowings and are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

Interest income and interest payable presented in the income statement include interest on financial assets or liabilities at amortised cost on an effective rate basis.

Notes to the financial statements (continued)

Significant accounting policies (continued)

(l) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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.

(m) Turnover

Turnover is recognised on conclusion of sale of crops.

2. Operating expenses

	2008	2007
	£	£
Property expenses	**3,147**	2,751
Other operating expenses	**(20,790)**	13,298
Total operating expenses	**(17,643)**	16,049

3. Other income

	2008	2007
	£	£
Rental income	**19,379**	18,676
Other Income	**39,563**	2,500
	58,942	21,176

4. Other expenses

	2008	2007
	£	£
Audit fee	**1,500**	1,500

5. Net financing costs

	2008	2007
	£	£
Interest income	**526**	852
Financial income	**526**	852
Interest expense	**(60,445)**	(64,343)
Financial expense	**(60,445)**	(64,343)
Net financing costs	**(59,919)**	(63,491)

Notes to the financial statements (continued)

6. Income tax (charge)/credit

Recognised in the income statement

	2008	2007
	£	£
Current tax charge		
Corporation tax charge/(credit) for the period at 28.5%	(4,323)	4,691
	(4,323)	4,691
Total income tax credit in income statement	(4,323)	4,691

Reconciliation of effective tax rate

	2008	2007
	£	£
Profit/(loss) on ordinary activities before tax	15,166	(15,636)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(4,323)	4,691
Total income tax credit in income statement	(4,323)	4,691

7. Current tax liability

The current tax liability of £4,323 (2007: asset £4,691) represents the amount of income taxes payable in respect of the current period.

8. Inventories

	2008	2007
	£	£
At 1 January	1,637,968	1,573,661
Additions	161,421	164,560
Sale of crops	-	(100,253)
At 31 December	1,799,389	1,637,968

9. Trade and other receivables

	2008	2007
	£	£
Trade and other receivables	9,281	11,793

10. Cash and cash equivalents

	2008	2007
	£	£
Bank balances	11,726	78,500
Cash and cash equivalents in the statement of cash flows	11,726	78,500

Notes to the financial statements (continued)

11. Capital and reserves

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

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2007	100	(381,854)	(381,954)
Total recognised income and expense	-	(10,945)	(10,945)
Balance at 31 December 2007	100	370,909	371,009
Balance at 1 January 2008	100	370,909	371,009
Total recognised income and expense	-	10,843	10,843
Balance at 31 December 2008	**100**	**381,752**	**381,852**

Share capital and share premium

	Ordinary shares	
	2008	2007
	£	£
On issue at 1 January and at 31 December – fully paid	**100**	100

At 31 December 2008, the authorised share capital comprised 100 £1 ordinary shares (2007: 100).

The holder of the ordinary shares is entitled to receive dividends as declared from time to time and is entitled to vote at meetings of the Company.

12. Trade and other payables

	2008	2007
	£	£
Other trade payables	**74,278**	99,190
Non-trade payables and accrued expenses	**1,500**	1,500
	75,778	100,690

Notes to the financial statements (continued)

13. 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 cash and cash equivalent balances with another Group company.

The table below sets out the maximum exposure to credit risk at the balance sheet date.

	2008	2007
	£	£
Cash and cash equivalents	11,726	78,500
	11,726	78,500

Cash and cash equivalents are carried at amortised cost, whereby any indication of impairment would result in an immediate write-down of the carrying value. These instruments consist of bank balances with the Group and have an internal credit rating of better than satisfactory. At the reporting date none of these balances were considered past due or impaired, neither were there any financial assets that would otherwise be past due or impaired had their terms not have been renegotiated.

Market risk

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors. At the reporting date the Company's only exposure to market risk arose from interest rate risk, as all transactions and balances were denominated in Sterling and no equity share investments were held.

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.

The Company's cash and cash equivalent balances generate variable interest income and arise from the reinvestment of surplus liquid funds. The financial liabilities comprise variable rate borrowings provided by another Group company and they are used to finance the Company's inventories.

Interest rate exposure is concentrated entirely within the UK money markets. The principal internal control metric is the net interest income (NII) sensitivity which measures how much of the current projection for the next 12 months' NII would alter if different assumptions are made about the future levels of interest rates.

This table sets out the sensitivity of the Company's profit before tax over a 12 month period to an immediate up and down 25 basis points change to all interest rates as at the balance sheet date.

	2008	2007
	£000	£000
Impact of +25 bps shift	(3)	(3)
Impact of – 25 bps shift	3	3

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.

Notes to the financial statements (continued)

13. Financial instruments (continued)

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.

All funding is provided by the Group and 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

Maturity of contractual liabilities	Up to 1 mth	1-3 mths	3-12 mths	Total
	£	£	£	£
Amounts due to fellow subsidiary undertaking	1,360,323	-	-	1,360,323
Trade and other payables	74,278	1,500	-	75,778
Total liabilities	1,434,601	1,500	-	1,436,101

As at 31 December 2007

Maturity of contractual liabilities	Up to 1 mth	1-3 mths	3-12 mths	Total
	£	£	£	£
Amounts due to fellow subsidiary undertaking	1,266,941	-	-	1,266,941
Trade and other payables	99,190	1,500	-	100,690
Total liabilities	1,366,131	1,500	-	1,367,631

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

	Note	**Carrying amount 2008**	**Fair value 2008**	**Carrying amount 2007**	**Fair value 2007**
		£	**£**	**£**	**£**
Trade and other receivables	9	**9,281**	**9,281**	11,793	11,793
Cash and cash equivalents	10	**11,726**	**11,726**	78,500	78,500
Amount due to fellow subsidiary undertaking	17	**(1,358,443)**	**(1,358,443)**	(1,261,263)	(1,261,253)
Trade and other payables	12	**(80,101)**	**(80,101)**	(100,690)	(100,690)
		(1,417,537)	**(1,417,537)**	(1,271,650)	(1,271,650)
Unrecognised (losses) / gains			-		-

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Notes to the financial statements (continued)

13. Financial instruments (continued)

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

14. Operating Leases

Future minimum lease payments under operating leases

	2008	2007
	£	£
Not later than one year	9,012	9,884
Later than one year and not later than 5 years	-	-
Later than five years	-	-
	9,012	9,884

The Company leases out various buildings which are terminable by the Company within periods of less than one year. A number of the leases expired during the year. The tenancy was not terminated on the relevant dates by either party and so the lease will continue on a monthly basis until the appropriate notice of termination is given by either party.

15. Events after the Balance Sheet Date

a) Lloyds TSB Group plc acquisition of HBOS plc
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.

Notes to the financial statements (*continued*)

15. Events after the Balance Sheet Date

b) Government Asset Protection Scheme
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. LBG intends to participate in the Scheme in respect of assets and exposures on its consolidated balance sheet with an aggregate book value of approximately £250bn and will pay 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.

LBG has also agreed to replace the £4bn of preference shares held by HM Treasury with new ordinary shares which will be offered to eligible LBG shareholders pro rata to their existing shareholdings at a fixed price of 38.43 pence per ordinary share. These new ordinary shares will be offered to shareholders and new investors on the same basis as the Placing and Open Offer in November 2008. The ordinary share offer is fully underwritten by HM Treasury on substantially the same fee basis as the Placing and Open Offer conducted in November 2008. Participation in the Scheme and the replacement of the preference shares is subject to approval by eligible LBG shareholders.

16. Parent Undertakings

As at 31 December 2008 the Company's immediate parent company was Horizon Capital 2000 Ltd. 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, West Craigs Ltd'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 West Craigs Ltd. 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.

Notes to the financial statements (continued)

17. Related parties

The Company has a related party relationship with its intermediate parent company Bank of Scotland plc. A number of banking transactions are entered into with Bank of Scotland plc in the normal course of business including loans and deposits.

The Company also has a related party relationship with its fellow subsidiary undertaking Horizon Resources Limited. This relationship has arisen due to the provision of funding to the Company.

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

Nature of transaction	Related Party	Outstanding balance at 1 January 2008	Outstanding balance at 31 December 2008	Income/ expense included in income statement for the year ended 31 December 2008	2007 Comparative	Disclosure in financial statements
		£	£	£	£	
Bank account	Bank of Scotland plc	78,500	11,726			Cash and cash equivalents
Intercompany payable	Horizon Resources Limited	1,261,253	1,358,443			Amount due to fellow subsidiary undertaking
Interest receivable	Bank of Scotland plc			526	852	Financial income
Interest payable	Horizon Resources Limited			60,441	64,333	Financial expenses
Interest payable	Bank of Scotland plc			4	10	Financial expenses

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 period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these 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 WEST CRAIGS LIMITED

We have audited the financial statements of West Craigs Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 20.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and;
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

31 March 2009