OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

COMPANY NUMBER: 02799756

Directors

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
20 Castle Terrace
Edinburgh
EH1 2EG

Bankers

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

REPORT OF THE DIRECTORS

Directors

C Richards
Y E Sharp
D L Shindler

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Incorporation

The Company was incorporated on 10 March 1993.

Principal activity

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

Business review

During the year the company continued to seek investment opportunities which have the potential to generate significant returns.

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 12 to the financial statements. The Company is funded by its immediate parent undertaking and as a result liquidity risk is managed within the 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.

Performance

The company's profit before tax for the financial year is £8,796,000 (2007: £9,314,000).

Future developments

The company remains committed to the business of holding investments and will continue to manage new and existing investments in the future.

Results and dividends

The profit after tax for the Company for the year to 31 December 2008 was £6,262,000 (2007: £8,888,000). No dividends were paid in the year (2007: £2,900,000).

REPORT OF THE DIRECTORS (continued)

Directors and their interests

The Directors during the year are as stated below:

Director	Date of Appointment	Date of Resignation
C Richards	5 November 2007	-
Y E Sharp	5 November 2007	-
D L Shindler	5 November 2007	-
S J Peters	3 April 1998	22 July 2008

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 15 to the financial statements.

Audit information

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each 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 establish that the Company's auditors are aware of that information.

Company secretary

Paul Gittins

REPORT OF THE DIRECTORS (continued)

By Order of the Board

Y.E. Sharp
Director

Registered office

Level 7
Bishopsgate Exchange
155 Bishopsgate
London
EC2M 3YB

INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Financial income		14,388	14,651
Financial expense		(5,592)	(5,337)
Net financing income	4	8,796	9,314
Profit on ordinary activities before taxation		8,796	9,314
Income tax expense	5	(2,534)	(426)
Profit after tax for the financial year – all attributable to equity shareholders		6,262	8,888

The notes on pages 9 to 19 form part of the financial statements.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Profit for the year		6,262	8,888
Total recognised income and expense for the year	9	6,262	8,888
Attributable to:			
Equity holders		6,262	8,888
Profit for the year		6,262	8,888

The notes on pages 9 to 19 form part of the financial statements

BALANCE SHEET

As at 31 December 2008

	Notes	2008 £'000	2007 £'000
Assets			
Due from Group undertaking	6	655	3,677
Cash balances	7	262,410	253,045
Total current assets		263,065	256,722
Total assets		263,065	256,722
Equity			
Issued capital		960	960
Share premium		854	854
Capital contribution		101,500	101,500
Retained earnings		14,033	7,771
Total equity	9	117,347	111,085
Liabilities			
Other borrowed funds	8	105,844	100,259
Deferred tax liabilities	10	31,591	33,155
Total non current liabilities		137,435	133,414
Amounts due to Group undertakings	7	4,185	4,185
Trade and other payables	11	4,098	8,038
Total current liabilities		8,283	12,223
Total liabilities		145,718	145,637
Total equity and liabilities		263,065	256,722

The notes on pages 9 to 19 form part of the financial statements.

Approved by the Board of Directors on 26th March 2009 and signed on its behalf by

Y.E. Sharp
Director

STATEMENT OF CASHFLOWS

For the year ended 31 December 2008

	Notes	2008	2007
		£'000	£'000
Cash flows from operating activities			
Profit before taxation		8,796	9,314
Financial expense		5,592	5,337
Financial income		(14,388)	(14,651)
Cash generated from operations		-	-
Interest paid		(7)	(61)
Interest received		17,410	12,652
Income taxes paid		(8,038)	-
Net cash from operating activities		9,365	12,591
Cash flows from financing activities			
Dividends paid		-	(2,900)
Net cash used in financing activities		-	(2,900)
Net increase in cash and cash equivalents		9,365	9,691
Cash and cash equivalents at 1 January		248,860	239,169
Cash and cash equivalents at 31 December	7	258,225	248,860

The notes on pages 9 to 19 form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Old Broad Street Investments (Number 2) Limited is a company domiciled in England.

The financial statements were authorised for issue by the directors on 26th March 2009.

(a) Financial statements

The financial statements of Old Broad Street Investments (Number 2) Limited comprise Income Statement, Balance Sheets, Cash Flow Statements and Statements of Recognised Income and Expense together with the related Notes to the Financial Statements.

(b) Statement of compliance

The financial statements 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.

(c) Basis of preparation

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 (Note 15), 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 (Note 15) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting policies (continued)

(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 other reclassifications in the year. Thereafter the recognition and measurement principles of IAS 39 are followed. Appropriate disclosure is made within Note 12.

(e) IFRS and IFRIC not yet applied

The following standards and interpretations have not yet been adopted by the European Union, are not effective for the year ended 31 December 2008 and have not been applied in preparing the financial statements. Where appropriate disclosures will be revised in the financial statements in the year in which the standard or interpretation becomes applicable.

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.

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.

'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

(f) 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 Company is recognised as a separate asset.

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

(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 12. These judgements are continually reviewed and evaluated based on historical experience and other factors. The principal critical accounting judgements made by the group/Company that have a material financial impact on the financial statements are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting policies (continued)

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 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.

(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.

(i) 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 in full 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.

(j) Provisions

The Company recognises a provision if there is a present obligation as a consequence of either a legal or a constructive obligation resulting from a past event. To recognise this it should be 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.

(k) Other borrowed funds

Other borrowed funds comprise preference shares that are classified as debt, using the effective interest method.

Preference shares are classified as debt where they are redeemable on a specific date, or at the option of the shareholders, or if dividend payments are not discretionary. Dividends on preference shares classified as debt are recognised in the income statement through interest expense.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting policies (continued)

(l) Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(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) Foreign currencies

The financial statements are presented in sterling which is the Company's functional and presentation currency.

(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) Impairment losses

Impairment loss calculations involve the estimation of future cash flows of loans and advances 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.

2. Staff numbers and costs

The company has no employees. It uses the services of its parent undertaking HBOS plc for which no charge is made.

3. Directors' emoluments

None of the Directors received any emoluments for their services as Directors of the company.

4. Net financing income

	2008	2007
	£'000	£'000
Interest income	14,388	14,651
Financial income	14,388	14,651
Sundry interest	(7)	-
Interest expense	(5,585)	(5,337)
Financial expense	(5,592)	(5,337)
Net financing income	8,796	9,314

Interest expense is calculated using the effective interest rate method and relates to the non current amounts due to Group undertakings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Income tax expense

Recognised in the income statement

	2008 £'000	2007 £'000
Current tax		
Current tax charge for the period at a rate of 28.5% (2007:30%)	(4,098)	(4,377)
	(4,098)	(4,377)
Deferred tax		
Deferred tax credit for the period	1,592	1,583
Deferred tax changes in rates of corporation tax (note 10)	(28)	2,368
Total income tax expense in income statement	(2,534)	(426)

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%. The differences are explained below:

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	8,796	9,314
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(2,507)	(2,794)
Changes in rates of corporation tax on deferred tax assets and liabilities	(27)	2,368
Total income tax expense in income statement	(2,534)	(426)

6. Due from Group undertakings

	2008 £'000	2007 £'000
Interest receivable on term deposits	655	3,677

7. Cash and cash equivalents

	2008 £'000	2007 £'000
Bank balances	1	1
Call deposits	262,409	253,044
Cash balances	262,410	253,045
Amounts due to Group undertakings	(4,185)	(4,185)
Cash and cash equivalents in the statement of cash flows	258,225	248,860

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Other borrowed funds

	2008	2007
	£'000	£'000
Preference shares	105,844	100,259

The company has in issue zero coupon preference shares. The preference shares are accounted for as a financial liability as they are redeemable at as predetermined future date and amount. In line with accounting policies they have been valued at the date of issue at fair value and are subsequently measured using the effective interest rate method to accrete the book value to the redemption amount at the redemption date.

9. 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

Attributable to equity holders of the parent

	Share capital	Share premium	Capital contribution	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2007	960	854	101,500	1,783	105,097
Profit for the year	-	-	-	8,888	8,888
Dividend paid	-	-	-	(2,900)	(2,900)
Balance at 31 December 2007	960	854	101,500	7,771	111,085
Balance at 1 January 2008	960	854	101,500	7,771	111,085
Profit for the year	-	-	-	6,262	6,262
Balance at 31 December 2008	960	854	101,500	14,033	117,347

Share capital

	2008	2007
	£	£
Authorised		
1 'A' ordinary share of £0.50	1	1
5,999,999 ordinary shares of 50p each	2,999,999	2,999,999
Allotted, called up and fully paid		
1 'A' ordinary share of £0.50	1	1
1,920,002 ordinary shares of 50p each	960,001	960,001

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Deferred tax liabilities

	2008 £'000	2007 £'000
Deferred tax liabilities	31,591	33,155
Net position	31,591	33,155

Deferred tax is calculated at 28.5% (2007: 30%). The movement for the year in the company's net deferred tax position was as follows:

	2008 £'000	2007 £'000
At 1 January	33,155	37,106
Credit to income for the year (note 5)	(1,592)	(1,583)
Change in future rates of corporation tax (note 5)	28	(2,368)
Balance carried forward as at 31 December	31,591	33,155

Deferred tax liabilities	**Temporary differences £'000**	**Total £'000**
At 1 January 2008	33,155	33,155
Credit to income for the year (note 5)	(1,592)	(1,592)
Change in future rates of corporation tax (note 5)	28	28
Balance carried forward as at 31 December 2008	31,591	31,591

11. Trade and other payables

	2008 £'000	2007 £'000
Income tax payable	4,098	8,038
	4,098	8,038

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

	2008 £'000	2007 £'000
On balance sheet:		
Amounts due from Group undertaking	655	3,677
Cash and cash equivalents	262,410	253,045
	263,065	256,722

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Financial instruments (continued)

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)
- Foreign exchange rates (foreign exchange risk)
- Equity markets (equity 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 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.

The table below sets out the sensitivity of the Company's net interest income over a 12 month period to an immediate up and down 100 basis points change to all interest rates as at the balance sheet date.

	Assets		**Liabilities**	
	Year to 31 December 2008	**Year to 31 December 2007**	**Year to 31 December 2008**	**Year to 31 December 2007**
	£'000	**£'000**	**£'000**	**£'000**
Impact of +100 bps shift	2,631	2,567	(2,229)	(2,229)
Impact of – 100 bps shift	(2,631)	(2,567)	2,229	2,229

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

The Company has no exposure to foreign exchange risk.

Equity risk

The company has no exposure to equity risk.

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 HBOS group Company subject to internal limits. Overall liquidity of the HBOS plc 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**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Preference shares	-	-	-	(218,670)	(218,670)
Due to Group undertakings	(4,185)	-	-	-	(4,185)
	(4,185)	-	-	(218,670)	(222,855)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Financial instruments (continued)

As at 31 December 2007

	Up to 1 mth	1-3 mths	3-12 mths	1-5 yrs	Total
	£'000	£'000	£'000	£'000	£'000
Preference shares	-	-	-	(218,670)	(218,670)
Due to Group undertakings	(4,185)	-	-	-	(4,185)
	(4,185)	-	-	(218,670)	(222,855)

Fair values

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

	Notes	Carrying amount	Fair value	Carrying amount	Fair value
		2008	2008	2007	2007
		£'000	£'000	£'000	£'000
Amounts due from Group undertakings	6	655	655	3,677	3,677
Cash balances	7	262,410	262,410	253,045	253,045
Other borrowed funds	8	(105,844)	(135,805)	(100,259)	(100,259)
Amounts due to Group undertakings	7	(4,185)	(4,185)	(4,185)	(4,185)
		153,036	123,075	152,278	152,278

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.

Other borrowed funds

The fair value of preference shares is estimated with a discounted cashflow model using an appropriate market discount rate.

Amounts due to and from Group undertakings

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

Cash balances

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Related parties

Key management personnel and members of their close families have not undertaken any transactions with Old Broad Street Investments (Number 2) 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 from Group undertaking	256,722	263,065		Interest bearing deposits
Due to Group undertaking	4,185	4,185	-	Interest bearing loans and borrowings
Interest receivable			14,388	Financial income
Interest payable	-	-	7	Financial expense

The Group's policy in relation to lending to related parties and other product offering is disclosed in the Group accounts of HBOS plc, the ultimate parent company undertaking of Old Broad Investments (Number 2) Limited.

14. 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, Old Broad Street Investments (Number 2) 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 Old Broad Street Investments (Number 2) 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 for Old Broad Street Investments (Number 2) Limited of £3,800 (2007: £3,800).

15. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Post balance sheet events (continued)

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. 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.

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 OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

We have audited the financial statements of Old Broad Street Investments (Number 2) Limited for the year ended 31 December 2008 which comprise the Income Statement, Statement of Recognised Income and Expense, Balance Sheet, 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 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 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 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 Auditors
Edinburgh

26th March 2009