CAPITAL BANK ASSET FINANCE (2) LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

COMPANY NUMBER: 0660559

CAPITAL BANK ASSET FINANCE (2) LIMITED

YEAR ENDED 31 DECEMBER 2009

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CAPITAL BANK ASSET FINANCE (2) LIMITED

YEAR ENDED 31 DECEMBER 2009

REPORT OF THE DIRECTORS

The directors hereby submit their report and the financial statements for the year ended 31 December 2009

Business review and principal activities

The main objective of the Company is to lease assets to third parties for an agreed term. The Company ceased writing new business from 23 April 2009 and continued to manage the leasing transactions underwritten in previous years

The immediate parent company, Bank of Scotland plc, acts as an agent of the Company in return for an annual fee Agency services provided include seeking new business, negotiating and agreeing lease contract terms with customers, executing all lease documents on behalf of the Company, maintaining accounting and other records and settling invoices Bank of Scotland plc also provides funding to the Company

Performance

The directors consider that the Company has conducted its activities throughout the year in a satisfactory manner

The Company's profit after tax for the financial year is £750,000 (2008 loss £2,408,000 restated) an improvement of £3,158,000 The Company has total assets of £12,208,000 (2008 £25,412,000 restated) a decrease of £13,204,000

Whilst the Company continued to write new business during the year it did so at a much reduced level. Operating leased asset additions amounted to £227,000 in the year 31 December 2009 compared to £5,667,000 in the year to 31 December 2008

Principal risks and uncertainties

The principal risks and uncertainties faced by the Company are managed within a framework established at the HBOS plc group level. From the 16 January 2009 this framework has been integrated into the Lloyds Banking Group These risks are discussed and supplementary qualitative and quantitative information is provided in note 19 to the financial statements

Key performance indicators

The directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Financial instruments

The Company's policy relating to the management of financial risk and potential exposures are detailed in note 19.

Results and dividends

The results for the year are shown in the Statement of Comprehensive Income on page 6 No dividends were paid during the year (2008· £nil).

Restatement of comparatives

Following the acquisition of HBOS plc an exercise has been undertaken to align the presentation of the financial statements with other companies within the Lloyds Banking Group.

More details regarding the restatement can be found in note 24 to the financial statements

Directors

The directors of the Company during the year to 31 December 2009 were

A L Webster	(resigned 30 June 2009)
S J Ballingall	(resigned 30 June 2009)
L J Town	(resigned 7 April 2009)
T M Blackwell	(appointed 30 June 2009)
G Ferguson	(appointed 30 June 2009)
J M Morrissey	(appointed 30 June 2009)

Policy and practice on payment of creditors

The Company's suppliers are paid through HBOS plc's centralised accounts payable department

For the forthcoming period HBOS plc's policy for the payment of suppliers will be as follows:

- Payment terms will be agreed at the start of the relationship with the supplier and will only be changed by agreement,
- Standard payment terms to suppliers of goods and services will be 30 days from receipt of a correct invoice for satisfactory goods or services which have been ordered and received unless other terms are agreed in a contract,
- Payment will be made in accordance with the agreed terms or in accordance with the law if no agreement has been made; and
- Suppliers will be advised without delay when an invoice is contested and disputes will be settled as quickly as possible

HBOS plc complies with the Better Payment Practice Code Information regarding this Code and its purpose can be obtained from the Better Payment Practice Group's website at www payontime co uk

There are no specific trade creditors included in these financial statements and so the average number of days credit taken at 31 December 2009 are nil (2008 nil)

Auditors

Following the resignation of KPMG Audit Plc on 10 June 2009, PricewaterhouseCoopers LLP were appointed as auditors of the Company with effect from the same date by resolution of the member dated 11 September 2009.

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the member of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and PricewaterhouseCoopers LLP will therefore continue in office

CAPITAL BANK ASSET FINANCE (2) LIMITED

YEAR ENDED 31 DECEMBER 2009

REPORT OF THE DIRECTORS (continued)

Statement of directors' responsibilities in respect of the report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union

In preparing these 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 applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, 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 which disclose, with reasonable accuracy at any time, the financial position of the Company and which enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection for fraud and other irregularities

Statement on disclosure of information to the auditors

The directors who held office at the date of approval of this 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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board

J Morrissey

J. M. Morrissey
Director

Registered office
Charterhall House
Charterhall Drive
Chester
Cheshire
CH88 3AN

CAPITAL BANK ASSET FINANCE (2) LIMITED

YEAR ENDED 31 DECEMBER 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CAPITAL BANK ASSET FINANCE (2) LIMITED

We have audited the financial statements of Capital Bank Asset Finance (2) Limited for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's member as a body in accordance with Chapter 3 Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements·

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CAPITAL BANK ASSET FINANCE (2) LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Mark Ellis

Mark Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

One Kingsway
Cardiff
CF10 3PW
31 August 2010

CAPITAL BANK ASSET FINANCE (2) LIMITED

YEAR ENDED 31 DECEMBER 2009

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009 £'000	2008 Restated £'000
Interest and similar income		6	18
Interest and similar expense		(159)	(1,434)
Net interest expense	2	(153)	(1,416)
Other operating income	3	15,766	18,581
Other operating expense	4	(14,367)	(20,287)
Impairment losses		(205)	(3)
Profit/(loss) before taxation		1,041	(3,125)
Taxation	7	(291)	717
Profit/(loss) for the year attributable to equity shareholder, being total comprehensive income		750	(2,408)

The notes on pages 10 to 24 form part of the financial statements.

Details of the restatement can be found in note 24 to the financial statements

All items relate to continuing activities

Company number 0660559

CAPITAL BANK ASSET FINANCE (2) LIMITED

AS AT 31 DECEMBER 2009

BALANCE SHEET

	Notes	2009 £'000	2008 Restated £'000	2007 Restated £'000
Assets				
Property, plant and equipment	8	6,410	19,976	33,698
Deferred tax assets	9	3,432	2,742	252
Total non-current assets		9,842	22,718	33,950
Cash and cash equivalents	10	-	2,364	101
Finance lease receivables	11	-	1	13
Amounts due from group undertakings	12	2,239	-	74
Group relief receivable		-	-	133
Other current assets	13	127	329	1,390
Total current assets		2,366	2,694	1,711
Total assets		12,208	25,412	35,661
Liabilities				
Bank overdraft	10	11,988	-	-
Amounts due to group undertakings	14	366	26,132	35,345
Current taxation creditor		1,076	1,110	-
Other liabilities	15	179	321	59
Total current liabilities		13,609	27,563	35,404
Total liabilities		13,609	27,563	35,404
Equity				
Issued capital	16	100	100	100
Retained earnings		(1,501)	(2,251)	157
Total equity		(1,401)	(2,151)	257
Total equity and liabilities		12,208	25,412	35,661

The notes on pages 10 to 24 form part of the financial statements

Details of the restatement can be found in note 24 to the financial statements.

The financial statements on pages 6 to 24 were approved by the Board of Directors on 31st August 2010 and signed on its behalf by

J Morrissey

J. M. Morrissey
Director

CAPITAL BANK ASSET FINANCE (2) LIMITED

YEAR ENDED 31 DECEMBER 2009

STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2008	**100**	**157**	**257**
Comprehensive loss for the year	-	(2,408)	(2,408)
At 31 December 2008	**100**	**(2,251)**	**(2,151)**
Comprehensive income for the year	-	750	750
At 31 December 2009	**100**	**(1,501)**	**(1,401)**

The notes on pages 10 to 24 form part of the financial statements

CAPITAL BANK ASSET FINANCE (2) LIMITED

YEAR ENDED 31 DECEMBER 2009

STATEMENT OF CASH FLOWS

	Notes	2009	2008 Restated
		£'000	£'000
Cash flows from operating activities			
Profit/(loss) before taxation		**1,041**	(3,125)
Adjustments for.			
Depreciation operating leased assets		**3,794**	7,254
Decrease in receivables		**203**	1,073
(Decrease)/increase in payables		**(142)**	262
Interest payable		**159**	1,434
Carrying value on sale of operating leased assets		**9,999**	12,135
Cash generated from operations		**15,054**	19,033
Interest paid		**(159)**	(1,434)
Income taxes paid		**(1,015)**	(530)
Net cash from operating activities		**13,880**	17,069
Cash flows from investing activities			
Purchase of operating leased assets		**(227)**	(5,667)
Net cash used in investing activities		**(227)**	(5,667)
Cash flows from financing activities			
(Increase)/decrease in balances due from group undertakings		**(2,239)**	74
Decrease in balances due to group undertakings		**(25,766)**	(9,213)
Net cash used in financing activities		**(28,005)**	(9,139)
Net (decrease)/increase in cash and cash equivalents		**(14,352)**	2,263
Cash and cash equivalents at 1 January		**2,364**	101
Cash and cash equivalents at 31 December	**10**	**(11,988)**	2,364

The notes on pages 10 to 24 form part of the financial statements

Details of the restatement can be found in note 24 to the financial statements

CAPITAL BANK ASSET FINANCE (2) LIMITED

YEAR ENDED 31 DECEMBER 2009

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

Capital Bank Asset Finance (2) Limited is a company incorporated and domiciled in England

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to all periods presented unless otherwise stated

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC')

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements

IAS 1 (revised) 'Presentation of financial statements' The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity All non-owner changes in equity are required to be shown in a performance statement Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income) The Company has elected to present one statement a statement of comprehensive income The financial statements have been prepared under the revised disclosure requirements, the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements

Improvements to IFRSs (issued May 2008) Sets out minor amendments to IFRS standards as part of annual improvements process Most amendments clarified existing practice. The application of these new interpretations has not had any impact for amounts recognised in these financial statements except for the presentation of gains or losses on disposal of operating leased assets.

IAS 16 'Property, plant and equipment' (amendment) The amendment requires that where a company routinely sells items of property, plant and equipment that is held for rental to others the company shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale The amendment also requires that proceeds from sale of such assets shall be recognised as revenue in accordance with IAS 18 'Revenue' Comparative information has been re-presented so that it also is in conformity with the revised standard, as set out in note 24

Sale proceeds receive on disposal of operating leased assets are shown as other operating income with the carrying value of the disposed of assets are shown as other operating expenses Previously, neither the gain nor loss on disposal of operating leased assets were classed as other income or expense

Details of those pronouncements which will be relevant to the Company, but which were not effective at 31 December 2009 and which have not been applied in preparing these financial statements are given in note 20

1. Accounting policies (continued)

Basis of preparation (continued)

The financial statements have been prepared under the historical cost basis

The Company is reliant on funding provided by Bank of Scotland plc Notwithstanding the improvement in market liquidity during 2009, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis

Operating lease income

Operating lease income is recognised on a straight line basis over the life of a lease

Fee and commission income

Fees and commission income and expense are recognised in the statement of comprehensive income as the related service is provided

Interest income from financial assets

Interest income and expense from all interest bearing financial instruments excluding finance lease receivables are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account.

Secondary lease rentals are recognised within interest and similar income

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the agreement, but not future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return such as acceptance fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

1. Accounting policies (continued)

Financial assets and liabilities

The financial assets comprise cash and cash equivalents, finance lease receivables, amounts due from group undertakings and other current assets The financial liabilities comprise bank overdrafts, amounts due to group undertakings and other liabilities.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired

Interest bearing financial assets and liabilities are recognised at amortised cost inclusive of transactions costs, using the effective interest method

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee, all other leases are classified as operating leases

When assets are leased under a finance lease, the net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within finance lease receivables

Impairment provisions

Assets held under operating leases

Impairment of property, plant and equipment leased to customers under operating leases is assessed by comparing the net present value of the expected future cash flows with the asset's carrying value Any impairment identified in this way is charged immediately to the income statement

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the residual value of the related asset is adjusted and the amount of the reversal is recognised in the income statement

Property, plant and equipment

Operating lease assets are recorded as property, plant and equipment at historical purchase price less depreciation and any impairment allowance

Depreciation is calculated using the straight line method to allocate the difference between the cost and expected residual value over the period of the lease.

Future rates of depreciation are re-assessed each year in light of changes to anticipated residual values, and are amended as required.

1. Accounting policies (continued)

Taxation, including deferred income taxes

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses arise

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

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

Cash and cash equivalents and bank overdraft

Cash and cash equivalents and bank overdrafts comprise deposits at bank held at call or within three months notice or less and bank overdrafts

Critical accounting estimates and judgements in applying accounting policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of amounts, events or actions, actual results ultimately may differ from those estimates

Operating lease residual value
The Company regularly reviews the residual value of its operating lease assets by reference to independent market value data and the prevailing economic conditions, and adjusts rates of depreciation accordingly.

Impairment losses
Impairment loss calculations involve the estimation of future cash flows based on observable data at the balance sheet date. The Company takes account of a number of relevant considerations including historical experience, future prospects of the customer, value of collateral held and reliability of information. Significant judgement is applied in estimating the impact of these considerations on the expected future cash flows

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. Net interest expense

	2009 £'000	2008 Restated £'000
Interest and similar income		
Secondary period finance lease income	6	18
	6	18
Interest and similar expense		
Interest payable to group undertakings (note 17)	(159)	(1,429)
Other interest	-	(5)
	(159)	(1,434)
Net interest expense	(153)	(1,416)

3. Other operating income

	2009 £'000	2008 Restated £'000
Fees and commission	123	204
Operating lease rental income	6,598	8,935
Sale proceeds on disposal of operating leased assets	9,045	9,442
	15,766	18,581

4. Other operating expense

	2009 £'000	2008 Restated £'000
Commission payable to group undertakings (note 17)	464	720
Depreciation	3,794	7,254
Management charge due to parent company (note 17)	110	178
Carrying value on disposal of operating leased assets	9,999	12,135
	14,367	20,287

Fees payable to the Company's auditors for the audit of the financial statements of £2,000 (2008 £2,000) have been borne by the immediate parent undertaking, Bank of Scotland plc.

5. Staff numbers and costs

The Company has no employees It uses the services of its immediate parent undertaking for which a management charge, included in other operating expenses, is made. It is not possible to determine the amount of this charge that relates to staff costs

6. Directors' emoluments

None of the dırectors received any emoluments for theır services as dırectors of the Company (2008 £nıl)

The dırectors are employed by other companies withın the Lloyds Bankıng Group and consıder that theır servıces to the Company are ıncidental to theır other actıvıtıes wıthın the group There are no other key management personnel

7. Taxation

a. Analysis of charge/(credit) for the year

	2009 £'000	2008 Restated £'000
Current tax		
Corporation tax on profit/(loss) for the year	**981**	1,146
Adjustments ın respect of prıor years	**-**	627
	981	1,773
Deferred tax (note 9)		
Orıgınatıon and reversal of temporary dıfferences	**(690)**	(2,003)
Adjustments in respect of prior years	**-**	(487)
	(690)	(2,490)
	291	(717)

The average rate of UK corporatıon tax for the year to 31 December 2009 is 28 0% (2008. 28 5%)

b. Factors affecting the tax charge/(credit) for the year

A reconcılıatıon of the tax charge/(credıt) for the year that would result from applyıng the standard UK corporatıon tax rate to profit/(loss) before tax to the tax charge/(credıt) for the year ıs gıven below

	2009 £'000	2008 Restated £'000
Profit/(loss) before taxation	**1,041**	(3,125)
Tax thereon at UK corporation tax rate at 28.0% (2008 28 5%)	**291**	(891)
Effects of.		
Impact of change ın UK corporatıon tax rate	**-**	34
Adjustment ın respect of prıor years	**-**	140
	291	(717)
Effectıve rate	**28.0%**	22.9%

8. Property, plant and equipment

	Operating leased assets Restated £'000
Cost	
Balance at 1 January 2008	46,867
Additions	5,667
Disposals	(18,517)
At 31 December 2008	**34,017**
Balance at 1 January 2009	34,017
Additions	227
Disposals	(15,774)
At 31 December 2009	**18,470**
Depreciation	
Balance at 1 January 2008	13,169
Depreciation charge for the year	7,254
Disposals	(6,382)
At 31 December 2008	**14,041**
Balance at 1 January 2009	14,041
Depreciation charge for the year	3,794
Disposals	(5,775)
At 31 December 2009	**12,060**
Net book value	
At 31 December 2008	**19,976**
At 31 December 2009	**6,410**

All operating leased assets are vehicles

There are no rentals on operating leases that have a contingent element (2008 £nil)

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

	2009 £'000	2008 £'000
Less than one year	**2,046**	5,347
Between one and five years	**360**	2,423
	2,406	7,770

The Company leases a portfolio of motor vehicles to private companies under operating leases for varying lengths from short term periods of 6 months up to periods of 25 years.

9. Deferred tax

The movement for the year in the Company's net deferred tax asset was as follows

	2009 £'000	2008 Restated £'000
At 1 January	**2,742**	252
Credit to income for the year (note 7)	**690**	2,490
At 31 December	**3,432**	2,742

In both the year ended 31 December 2009 and 2008, all balances and statement of comprehensive income credits related to accelerated capital allowances on assets leased to customers.

10. (Bank overdrafts)/cash and cash equivalents

	2009 £'000	2008 £'000
(Bank overdrafts)/cash at bank (note 17)	**(11,988)**	2,364

The above amounts are unsecured and repayable on demand. Interest is charged at Bank of England base rate on the net intercompany balance.

11. Finance lease receivables

	2009 £'000	2008 £'000
Gross and net investment in finance leases, receivable:		
No later than one year	**-**	1
	-	1

12. Amounts due from group undertakings

	2009 £'000	2008 £'000
Current assets		
Amounts due from group undertakings (note 17)	**2,239**	-

The above amounts are unsecured and repayable on demand Interest is charged at Bank of England base rate on the net intercompany balance

13. Other current assets

	2009 £'000	2008 £'000
Operating lease rentals receivable	**127**	319
Other debtors	**-**	10
	127	329

14. Amounts due to group undertakings

	2009 £'000	2008 Restated £'000
Current liabilities		
Amounts due to group undertakings (note 17)	**366**	26,132

The above amounts are unsecured and repayable on demand Interest is charged at Bank of England base rate on the net intercompany balance

15. Other liabilities

	2009 £'000	2008 Restated £'000
VAT	**149**	98
Other creditors	**30**	223
	179	321

16. Share capital

	2009 £	2008 £
Authorised		
50,000 'A' Ordinary shares of £1 each	**50,000**	50,000
50,000 'B' Ordinary shares of £1 each	**50,000**	50,000
	100,000	100,000
Allotted, called up and fully paid		
50,000 'A' Ordinary shares of £1 each	**50,000**	50,000
50,000 'B' Ordinary shares of £1 each	**50,000**	50,000
	100,000	100,000

The holders of both classes of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

17. Related parties

Key management personnel, which consist of the directors of the Company, and members of their close families have not undertaken any transactions with Capital Bank Asset Finance (2) Limited.

The Company had the following transactions with related parties

	2009	2008
	£'000	£'000
Transactions included within Statement of Comprehensive Income		
Interest payable to group undertakings (note 2)	**(159)**	(1,429)
Commission payable to group undertakings (note 4)	**(464)**	(720)
Management charge due to parent company (note 4)	**(110)**	(178)
Outstanding balances included within Balance Sheet		
Cash & cash equivalents held by group undertakings (note 10)	**-**	2,364
Amounts due from group undertakings (note 12)	**2,239**	-
Bank overdraft held with group undertakings (note 10)	**(11,988)**	-
Amounts due to group undertakings (note 14)	**(366)**	(26,132)

18. Parent undertaking

The Company's immediate parent company, and immediate controlling party, is Bank of Scotland plc The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is 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 is the parent undertaking of the smallest such group of undertakings Copies of the group accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN

19. Financial risk management

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any significant foreign exchange risk Responsibility for the control of overall risk lies with the Board of Directors, operating within a management framework established by its immediate parent, Bank of Scotland plc, and the ultimate parent, Lloyds Banking Group plc

Credit risk

Credit risk is the risk that a customer will be unable to pay amounts in full when due. Credit risk is carefully monitored by credit committees and credit functions which operate at business unit and divisional levels within the wider Lloyds Banking Group

The credit risk associated with finance lease contracts is managed through the application of strict underwriting criteria, determined by credit committee and credit functions Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

19. Financial risk management (continued)

Credit risk (continued)

Operating lease rentals receivable

The maxımum exposure to operatıng lease rentals receivable at the year end ıs as follows

	2009 £'000	2008 £'000
Past due up to 30 days	**35**	36
Past due from 30-60 days	**42**	44
Past due from 60-90 days	**10**	11
Past due from 90 days – 1 year	**58**	61
Past due greater than 1 year	**160**	167
	305	319

Past due ıs defined as failure to make a payment when ıt falls due. Operatıng lease rentals receıvable of £178,000 (2008 £nıl) are consıdered ımpaıred against whıch a provısıon of £178,000 ıs held (2008 £nıl) The above figures are shown gross of thıs provısıon The remaınıng £27,000 (2008: £3,000) on the statement of comprehensive ıncome relates to bad debts wnte offs

Finance lease receivables

The Company lends to wholesale customers (beıng motor traders and corporate customers) based ın the United Kıngdom

The maxımum exposure of finance lease receıvables is £nıl (2008 £1,000 neıther past due nor ımpaıred).

Fınance lease receıvables whıch are neıther past due nor impaıred of good qualıty were £nil (2008 £1,000)

Good qualıty lendıng compnses those balances with a lower probabılıty to default ratıng assıgned and the ratıng progressıvely ıncreases for each category exhıbıting a progressıvely higher probabılıty to default

Fınance lease receıvables whıch are past due but not impaired was £nıl (2008 £nıl) Past due ıs defined as faılure to make a payment when ıt falls due

Renegotiated loans and advances to customers

Durıng the year the Company dıd not renegotiate any finance lease receıvables, which would otherwıse have been past due or ımpaıred

19. Financial risk management (continued)

Repossessed collateral

Collateral held against finance lease receivables is principally comprised of motor vehicles and other plant and machinery The Company does not take physical possession of any collateral, instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

Due to the nature and volume of the assets held as collateral it is impracticable to estimate the fair value of all collateral held at the year end in respect of finance lease receivables.

During the year the Company repossessed collateral of £nil in respect of defaulted debt (2008 £nil)

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due To manage this risk extensive borrowing facilities are available from within the Lloyds Banking Group

Liquidity risks are managed as part of the Lloyds Banking Group, in consultation with the board of directors

The Company is funded on an ongoing basis entirely by companies within the Lloyds Banking Group Such funding is repayable within three months, although there is no expectation that such a demand would be made All other financial liabilities are repayable on demand

Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the re-pricing of financial assets and liabilities

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 interest rates as at the balance sheet date

	2009	2008
	£'000	£'000
Impact of +100 bps shift	**(100)**	(238)
Impact of – 100 bps shift	**100**	238

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.

Financial strategy

The Company does not trade in financial instruments, nor does it use derivatives

19. Financial risk management (continued)

Fair values of financial assets and liabilities

The directors consider that there are no material differences between the carrying amounts shown in the balance sheet and the fair value.

Residual value risk

The leasing portfolio includes agreements where the Company has a risk in respect of residual value of the assets This area of credit policy is monitored by a residual value committee which meets on a regular basis to consider the exposure taking into account current and projected industry trends in addition to the Company's own risk management data

20. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2009 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process.	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
IAS24 Related Party Disclosures	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011

The full impact of these pronouncements is being assessed by the Company However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements.

21. Contingent liabilities and commitments

There were no contingencies or contracted capital commitments at the balance sheet date (2008 £nil)

22. Post balance sheet events

A number of the measures announced in the June 2010 Budget Statement will affect the Company

The Finance (No 2) Act 2010 includes legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011 The effect of the changes would be to reduce the deferred tax asset by approximately £123,000 resulting in an estimated charge to the statement of comprehensive income of £123,000

The proposed further reductions in the rate of corporation tax by 1 % per annum to 24 % by 1 April 2014 are expected to be enacted separately each year starting in 2011. The effect of these further changes upon the Company's deferred tax balances and leasing business cannot be reliably quantified at this stage

23. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements

The Company's parent manages the Company's capital structure and advises the Board of Directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or sell assets

The Company's capital comprises all components of equity, movements in which appear in the statement of changes in equity. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally

24. Restatement of comparatives

Following the acquisition of HBOS plc an exercise has been undertaken to align the presentation of the financial statements within the Lloyds Banking Group.

As part of this process, prior year comparatives have been restated in these financial statements. There was no impact to the loss recognised for 2008 The most significant presentational amendments are as follows

Classification of impairment losses
Operating expenses previously included £3,000 relating to bad debts, less recoveries and movements in impairment allowances, which have been separately classified as impairment losses.

Classification of residual value losses
Operating expenses previously included £2,695,000 relating to residual value losses, which have now been reclassified as part of sale proceeds and carrying value on disposal of operating leased assets.

In the cash flow statement net profit on sale of operating leased assets was overstated and proceeds from sale of operating leased assets were overstated.

24. Restatement of comparatives (continued)

Classification of amounts due from and amounts due to group undertakings
Cash and cash equivalents previously included inter company assets of £351,000, which has been reclassified as amounts due to group undertakings

Amounts due from and amounts due to group undertakings were included within cash and cash equivalents in the cash flow statement These balances are now included within net cash generated by financing activities

Classification of commission creditor
Other liabilities previously included £1,176,000 relating to commission creditors that had been settled by the parent company in previous years The balance has been reclassified as amounts due to group undertakings

Operating leases cost and depreciation
The split between cost and depreciation was incorrect by £2,135,000 for both years presented in these financial statements, there was no effect on the carrying value for either year

Deferred tax and current tax
The split between deferred tax and current tax was incorrect as at 31 December 2008, both were understated by £95,000

Presentation of operating lease asset disposals
Following the changes to IAS 16 'Property, plant, equipment' sales proceeds from operating lease asset disposed in the year of £9,045,000 (2008: £9,442,000) are included within other operating income The carrying value of the assets disposed of during the year of £9,999,000 (2008 £12,135,000) are included within other operating expenses