LEX VEHICLE PARTNERS (3) LIMITED

Directors' Report and Financial Statements

30 September 2008

Registered number 2954958

Registered Office:
Charterhall House
Charterhall Drive
Chester
CH88 3AN

Lex Vehicle Partners (3) Limited

Directors' Report and Financial Statements

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Lex Vehicle Partners (3) Limited

Directors

J K Walden

R Francis (resigned 31 January 2008)

L J Town

S J Ballingall

Secretary

P Gittins

Lex Vehicle Partners (3) Limited

Directors' report

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 September 2008.

Business review

The principal activity of the company is vehicle leasing.

During the year the company continued to manage the leasing transactions underwritten in previous years. The main objective of the company is to lease vehicles to third parties for an agreed term.

Lex Vehicle Partners Limited, a fellow group company, acts as an agent and provides agency services by charging an annual fee to the company. The service provided by the agent is seeking new business, negotiating and agreeing terms of and arranging the execution of all lease documents on behalf of the company. The agent maintains accurate accounting and other records such as settlement of all invoices relating to the services. The business is funded by the parent company Lex Vehicle Leasing (Holdings) Limited.

Risk management

The key risks and uncertainties faced by the company are managed within the framework established for the HBOS group. Market risk comprises foreign exchange risk and interest rate risk. The company does not have any exposure to foreign exchange risk. Interest rate risk is discussed below. The company is funded by its parent and ultimately liquidity risk is managed within the HBOS group. These responsibilities were subsequently assumed by Lloyds Banking Group plc, following their acquisition of HBOS, as set out in Note 16 to the financial statements.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers and updated annually.

At the balance sheet date there was a concentration of credit risk with group companies who bear the credit risk of the lessees. There were no significant concentrations of credit risk in other group companies at the balance sheet date.

Interest rate risk

All agreements are fixed rate agreements where the customer is committed to pay interest at a rate fixed at the commencement of the agreement for the agreement term; as such the individual company is exposed to interest rate risk. This risk is not managed at the individual company level, however, on a Group basis this risk is materially hedged by fixed interest bearing financial liabilities that are held within the parent company, Lex Vehicle Leasing (Holdings) Limited. The cost of these liabilities is passed down to the individual companies by way of a Group recharge.

Foreign exchange risk

The company does not have any exposure to foreign exchange risk as all assets and liabilities are denominated in Sterling.

Residual 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 separate 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.

Directors' report *(continued)*

Performance

During the year the fleet fell from 5,108 vehicles to 5,039 vehicles. The Company has total assets of £60.2m compared to £63.4m in 2007. During the year the company made a loss before tax of £3,185,000 (*2007: £782,000 profit*). The result in the year was heavily impacted by the fall in value of second hand cars. Residual value losses of £2.9m were reported in the year and an increase in the residual value provision of £1.8m was made.

Future developments

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

Financial instruments

The Company's policy relating to the management of financial risk and potential exposures are detailed in Note 13.

Results and dividend

The results for the year are shown in the Income Statement on page 8. The directors recommend that a final dividend of £410,000 be paid (*2007: £nil*).

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. The company owed £450,000 to trade payables at 30 September2008. 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. The average number of days credit for the Group taken at 31 December 2008 was 19 days (*2007: 20 days*).

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 16 to the financial statements.

Directors and directors' interests

The directors who held office during the year are listed on page 1.

Lex Vehicle Partners (3) Limited

Directors' report *(continued)*

Disclosure of information to auditors

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 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

P Gittins
Secretary

Charterhall House
Charterhall Drive
Chester
CH88 3AN

Lex Vehicle Partners (3) Limited

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

The financial statements are required by law to present fairly the financial position and performance of the company. 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 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 a 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 and a Business Review.

Independent auditor's report to the members of Lex Vehicle Partners (3) Limited

We have audited the financial statements of Lex Vehicle Partners (3) Limited for the year ended 30 September 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 5.

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.

Independent auditor's report to the members of Lex Vehicle Partners (3) Limited *(continued)*

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 30 September 2008 and of its loss for the year then ended; and
- 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
St. James' Square
Manchester
M2 6DS

28th March 2009

Lex Vehicle Partners (3) Limited

Income statement
for the year ended 30 September 2008

	Notes	2008 £000	2007 £000
Revenue	2	**21,494**	22,040
Cost of sales		**(18,195)**	(14,098)
Gross profit		**3,299**	7,942
Other operating expenses		**(4,336)**	(4,909)
Operating (loss)/profit before financing costs	3	**(1,037)**	3,033
Interest payable		**(2,148)**	(2,251)
(Loss)/profit before taxation		**(3,185)**	782
Income tax credit/(expense)	4	**843**	(62)
(Loss)/profit after taxation		**(2,342)**	720

All of the above amounts are in respect of continuing operations.

A reconciliation of the movement in capital and reserves can be found in Note 8.

There are no recognised gains or losses in the current or preceding year other than those shown in the income statement.

The notes on pages 11 to 23 form an integral part of these financial statements.

Lex Vehicle Partners (3) Limited

Balance sheet

As at 30 September 2008

	Notes	**2008**	2007
		£000	£000
Assets			
Property, plant and equipment	*5*	**55,296**	58,996
Total non-current assets		**55,296**	58,996
Assets awaiting sale	*5*	**1,062**	955
Trade and other receivables	*6*	**3,884**	3,406
Total current assets		**4,946**	4,361
Total assets		**60,242**	63,357
Equity			
Issued capital	*7*	**-**	-
Accumulated profits	*8*	**(1,484)**	1,268
Total equity		**(1,484)**	1,268
Liabilities			
Other payables	*10*	**1,819**	1,864
Deferred tax liabilities	*9*	**111**	2,416
Total non-current liabilities		**1,930**	4,280
Trade and other payables	*10*	**57,982**	57,215
Tax liabilities	*10*	**1,814**	594
Total current liabilities		**59,796**	57,809
Total liabilities		**61,726**	62,089
Total equity and liabilities		**60,242**	63,357

The financial statements on pages 8 to 23 were approved by the board of directors on 27/03/09 and were signed on its behalf by:

S J Ballingall
Director

The notes on pages 11 to 23 form an integral part of these financial statements.

Lex Vehicle Partners (3) Limited

Cash flow statement

for the year ended 30 September 2008

	Notes	2008 £000	2007 £000
(Loss)/profit before tax		**(3,185)**	782
Depreciation of property, plant and equipment		**13,339**	13,137
Loss on sale of fixed assets		**2,326**	1,667
Taxation		**(324)**	408
(Increase)/ decrease in trade and other receivables		**(478)**	465
Increase/ (decrease) in trade and other payables		**58**	(1,087)
Increase in residual value provision		**2,568**	431
Cash flows from operating activities		**14,304**	15,803
Cash flows from financing activities			
Purchase of property, plant and equipment		**(25,526)**	(24,813)
Proceeds on disposal of property, plant and equipment		**10,886**	15,158
Reclassification of intercompany funding		**-**	(61,556)
Payment of dividend		**(410)**	-
Net cash from financing activities		**(15,050)**	(71,211)
Net decrease in cash and cash equivalents		**(746)**	(55,408)
Cash and cash equivalents at 1 October		**(55,408)**	-
Cash and cash equivalents at 30 September	*11*	**(56,154)**	(55,408)

During 2008 and 2007 all amounts due to fellow group undertakings are classified as due on demand.

The notes on pages 11 to 23 form an integral part of these financial statements.

Lex Vehicle Partners (3) Limited

Notes to the financial statements

1. Significant accounting policies

Lex Vehicle Partners (3) Limited is a company domiciled in the United Kingdom.

The financial statements were authorised for issue by the directors on 27th March 2009.

Statement of compliance
The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The financial statements also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004.

The following IFRS standards and International Financial Reporting Interpretations Committee ('IFRIC') interpretations were applied for the first time in 2007: IFRS 7 "Financial Instruments: Disclosures", the amendment to revised IAS 1 "Presentation of Financial Statements" on capital disclosure.

The following standards and interpretations have been adopted by the EU but are not effective for the year ended 30 September 2008 and have not been applied in preparing the financial statements: IFRS 8 "Operating Segments" which is applicable for periods commencing on or after 1 January 2009. The application of this standard in 2008 would not have had any financial impact as it is only concerned with disclosure.

The following standards and interpretations have not yet been adopted by the EU, are not effective for the year ended 30 September 2008 and have not been applied in preparing the financial statements: Revised IAS 1 "Presentation of Financial Statements" which is effective for periods commencing on or after 1 January 2009. The application of this revised standard in 2008 would not have had any material impact on the financial statements.

Basis of preparation
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 (Note 16), HBOS plc raised £11,345m (net after costs) in preference and ordinary share capital.

Notes to the financial statements *(continued)*

1. Significant accounting policies *(continued)*

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 16) 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 its liabilities as they fall due. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

The financial statements are presented in Sterling, rounded to the nearest thousand. They are prepared on the historical cost basis, except that derivative financial instruments are stated at their fair value.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Revenue
Revenue is measured at the value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business net of discounts, VAT and other sales related taxes.

Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Vehicles held on contract hire
The cost of vehicles is depreciated to estimated residual value over their useful lives on a straight-line basis. Residual values are subject to a review on at least an annual basis to identify any potential impairment.

A residual value provision is made against vehicles based on a discounted cash flow. A key element of the cash flow is the expected residual value of vehicles at the end of their contract. In order to arrive at the expected residual value, estimates have been made as to how the used vehicle market itself will move over time. For every percentage movement in the estimated residual value of a vehicle, the residual value provision will increase or decrease on average by approximately half a percent of the book value of the vehicles.

1. **Significant accounting policies** *(continued)*

Trade and other receivables
Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

Assets awaiting sale
Assets awaiting sale comprise of operating leased assets where the agreements have reached their termination date, but the assets will not be sold until after the balance sheet date.

Financial assets and liabilities
All regular methods of purchase and sale of financial assets are recognised on the trade date i.e. the date the Company commits to purchase or sale of the asset. Regular methods of purchase or sale are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

All financial assets are initially measured at fair value plus transaction costs which are directly attributable to their acquisition.

Financial liabilities are measured initially at fair value plus any directly attributable transaction costs.

Income tax
Income tax on the profit 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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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, using tax rates enacted or substantively enacted at the balance sheet date.

Financial expenses
Financial expenses represent borrowing costs which are recognised as an expense in the period in which they are incurred.

Operating leases
Assets leased to customers are classified as operating leases. These assets are disclosed in the balance sheet as assets held for contract hire within property, plant and equipment and are recorded at cost less accumulated depreciation, which is calculated on a straight line basis, and less any provision for impairment.

Operating lease rental income is recognised in the income statement on a straight line basis. Initial direct costs incurred are deferred and allocated to income over the lease term in proportion to the recognition of rental income.

1. Significant accounting policies *(continued)*

Impairment provisions
The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

Impairment is assessed individually for financial assets. The recoverable amount of finance lease receivables carried at amortised cost is calculated as the present value of future cash flows, discounted at the original effective interest rate in the lease.

The recoverable amount of other assets including operating leases 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.

If impaired, the carrying value is adjusted and the difference charged to the income statement. The reversal of an impairment loss for an asset is recognised immediately in the income statement. 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, if no impairment loss had been recognised.

In accordance with IAS 8, the depreciation on assets has been adjusted in instances where the future estimated residual value has increased compared to the original estimated residual value.

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.

2. Revenue

The revenue received in the year consists of:

	2008	2007
	£000	£000
Trading income with third parties	**21,494**	22,040
	21,494	22,040

Notes to the financial statements *(continued)*

3. Profit from operations

Profit from operations has been arrived at after charging/(crediting):

	2008 £000	2007 £000
Depreciation and amounts written off owned plant property and equipment	**13,339**	13,137
Loss on sale of property, plant and equipment	**2,326**	1,667
Auditor's remuneration for audit services	**10**	9

Lex Vehicle Partners Limited provided management services to the company during the year. The charges it made include an element in respect of directors' and employees' remuneration, in addition to the fees in respect of the statutory audit, which it is not possible to identify separately. As such, the company had no employee costs.

4. Income tax expense

Recognised in the income statement:

	2008 £000	2007 £000
Current tax expense		
Current year	**1,515**	351
Adjustments for prior years	**(53)**	83
Deferred tax expense		
Origination and reversal of temporary differences	**(2,355)**	(289)
Adjustments for prior years	**50**	(83)
Total income tax expense/(income) in income statement	**(843)**	62

Reconciliation of effective tax rate
The tax assessed for the year varies from the standard rate of Corporation Tax in the UK (29%; *2007; 30%*). The differences are explained below:

	2008 £000	2007 £000
(Loss)/profit before tax	**(3,185)**	782
Income tax using the domestic corporation tax rate of 29% *(2007: 30%)*	**(924)**	235
Effects of:		
Under provided in prior years	**(3)**	-
Reduction in opening deferred taxes resulting from reduction in tax rate to 28% from April 2008	**84**	(173)
Total income tax (credit)/expense for the year	**(843)**	62

Notes to the financial statements *(continued)*

5. Property, plant and equipment

	Assets held for contract hire £000
Cost	
1 October 2007	82,501
Additions	25,526
Disposals	(26,423)
30 September 2008	81,604
Depreciation and other asset provisions	
1 October 2007	22,550
Charge for the year	13,339
Residual value provision	2,568
Disposals	(13,211)
30 September 2008	25,246
Net book value	
At 30 September 2008	
Assets held for contract hire	55,296
Assets awaiting sale	1,062
	56,358
Net book value	
At 30 September 2007	59,951

Notes to the financial statements *(continued)*

5. Property, plant and equipment *(continued)*

	Assets held for contract hire £000
Cost	
1 October 2006	88,406
Additions	24,813
Disposals	(30,718)
30 September 2007	82,501
Depreciation and other asset provisions	
1 October 2006	22,875
Charge for the year	13,137
Residual value provision	431
Disposals	(13,893)
30 September 2007	22,550
Net book value	
At 30 September 2007	
Assets held for contract hire	58,996
Assets awaiting sale	955
	59,951
Net book value	
At 30 September 2006	65,531

There were no capital commitments at 30 September 2008 (*2007: £nil*).

The aggregate rentals receivable during the year in respect of operating leases and similar agreements were £20,590,000 (*2007: £21,039,000*).

The net book value of assets held for contract hire at the year end includes unguaranteed residual values amounting to £39,787,000 (*2007: £40,008,000*). These mature as follows:

Unguaranteed residual value	Within 1 year £000	1 to 2 years £000	2 to 5 years £000	After 5 years £000	Total £000
2008	**19,979**	**10,853**	**8,955**	-	**39,787**
2007	17,559	14,709	7,740	-	40,008

Notes to the financial statements *(continued)*

6. Trade and other receivables

	2008 £000	2007 £000
Current trade and other receivables :		
Financial assets:		
Other receivables	**3,111**	2,639
Prepayments and accrued income	**773**	767
	3,884	3,406

7. Issued capital

	2008 £	2007 £
Authorised		
1,000 Ordinary shares of £1 each	**1,000**	1,000
Allotted, issued and fully paid		
2 Ordinary shares of £1 each	**2**	2

8. Capital and reserves

	Share Capital £000	Accumulated profits £000	Total equity £000
Balance at 1 October 2006	-	548	548
Total recognised income and expense	-	720	720
Balance at 30 September 2007	-	1,268	1,268
Balance at 1 October 2007	-	1,268	1,268
Total recognised income and expense	-	(2,342)	(2,342)
Dividend payment	-	(410)	(410)
Balance at 30 September 2008	-	**(1,484)**	**(1,484)**

Notes to the financial statements *(continued)*

9. Deferred taxation

The movement for the year in the deferred tax position was as follows:

Deferred taxation	2008 £000	2007 £000
1 October	**2,416**	2,788
Recognised in income statement:		
Origination and reversal of temporary differences	**(2,355)**	(289)
Adjustments for prior years	**50**	(83)
30 September	**111**	2,416

Deferred tax liabilities are attributable to the following:

	2008 £000	2007 £000
Accelerated capital allowances	**111**	2,416
	111	2,416

10. Liabilities

	2008 £000	2007 £000
Current liabilities:		
Financial liabilities:		
Trade payables	**450**	457
Amounts owed to immediate parent undertaking	**56,154**	55,408
Accruals and deferred income	**1,378**	1,268
Non-financial liabilities:		
Group relief owed to group undertakings	**-**	82
	57,982	57,215
Tax liabilities	**1,814**	594
	59,796	57,809
Non-current liabilities		
Financial liabilities:		
Accruals and deferred income	**1,819**	1,864
	61,615	59,673

Notes to the financial statements *(continued)*

11. Cash and cash equivalents

	2008 £000	2007 £000
Cash and cash equivalents owed to immediate parent	**56,154**	55,408
	56,154	55,408

12. Operating leases

Amounts receivable under operating leases are as follows:

Operating leases	Within 1 year £000	1 to 2 years £000	2 to 5 years £000	After 5 years £000	Total £000
Amounts receivable	6,833	11,831	17,705	-	36,369

13. Financial instruments

The company's financial assets and liabilities are restricted to trade receivables and payables which are predominantly due to and from other Group companies, for which the carrying value is deemed to approximate fair value.

Credit risk
Trade receivables are predominantly due from other group companies who bear the majority of the exposure to credit risk, however, management has a credit policy in place within these group companies and the exposure to credit risk is monitored on an ongoing basis. At a Group level credit evaluations are performed for all customers and updated annually.

At the balance sheet date there was a concentration of credit risk with group companies who bear the credit risk of the lessees. There were no significant concentrations of credit risk in other group companies at the balance sheet date.

Lex Vehicle Leasing (LVL) Limited performs all the underwriting on new business within Lex Vehicle Partners (3) Limited. Subsequently LVL Limited takes responsibility for any bad debts arising and the bad debt provision for Lex Vehicle Partners (3) debt is therefore held in LVL Limited.

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)
- residual risk

13. Financial instruments *(continued)*

Interest rate risk
The majority of trade receivables represent amounts receivable from other group companies who collect amounts under operating lease agreements on behalf of the company. In these group companies all agreements are fixed rate agreements where the customer is committed to pay interest at a rate fixed at the commencement of the agreement for the agreement term; as such the individual company is exposed to interest rate risk. This risk is not managed at the individual company level, however, on a Group basis this risk is materially hedged by fixed interest bearing financial liabilities that are held within the parent company Lex Vehicle Leasing (Holdings) Limited. The cost of these liabilities is passed down to the individual companies by way of a Group recharge.

Foreign exchange risk
The company does not have any exposure to foreign exchange risk as all assets and liabilities are denominated in Sterling.

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. These responsibilities were subsequently assumed by Lloyds Banking Group plc, following their acquisition of HBOS, as set out in Note 16 to the financial statements.

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 30 September 2008:

	Up to 1 month £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Amounts due to group undertakings	56,154	-	-	-	-	56,154
Other liabilities	1,828	-	-	1,819	-	3,647
Total	57,982	-	-	1,819	-	59,801

As at 30 September 2007:

	Up to 1 month £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Amounts due to group undertakings	55,408	-	-	-	-	55,408
Other liabilities	1,725	-	-	1,864	-	3,589
Total	57,133	-	-	1,864	-	58,997

Notes to the financial statements *(continued)*

14. Parent undertaking

As at 31 December 2008 the Company's immediate parent company was Lex Vehicle Leasing (Holdings) Limited, which is registered in England and Wales. 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. Lex Vehicle Leasing (Holdings) Limited was the parent undertaking of the smallest such group of undertakings.

From 16 January 2009, Lex Vehicle Partners (3) 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 16 January 2009, HBOS plc was the ultimate parent undertaking of Lex Vehicle Partners (3) 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.

15. Related party transactions

Transactions with immediate parent undertaking
Transactions during the year and outstanding at the year end with the immediate parent undertaking are as follows:

	2008	2007
	£000	£000
Transactions with immediate parent company	**746**	(6,148)
Amounts due to immediate parent company	**56,154**	55,408

Transactions with directors and key managers
There were no related party transactions with directors or key managers (*2007: £nil*).

16. 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.

16. 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 or 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.

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 aggregated 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.