5148237

LLOYDS TSB LEASING (NO.8) LIMITED

31 December 2008

Member of Lloyds Banking Group

25 Gresham Street London EC2V 7HN

DIRECTORS

T J Cooke
A J Cumming
J M Herbert
R A Isaacs

SECRETARY

S Slattery

AUDITORS

PricewaterhouseCoopers LLP

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

REGISTERED NUMBER

5148237

REPORT OF THE DIRECTORS

REVIEW OF BUSINESS

During the year, the principal activity of the company was the leasing of plant and equipment through finance lease transactions and this is likely to continue for the foreseeable future. The directors consider the results for the year to be satisfactory.

The results of the company show a loss before taxation of £20,698,000 (2007: £986,000) for the year as set out in the income statement on page 5. The company has shareholder's equity of £8,784,000 (2007: £4,341,000 deficit).

On 31 December 2008, the company transferred 95% of the cash flows within the finance lease portfolio to another group subsidiary undertaking, realising a loss upon de-recognition of the receivables of £30,192,000.

The company is reliant on funding ultimately provided by Lloyds TSB Bank plc. Owing to uncertainty in financial markets, Lloyds TSB Bank plc participates in government sponsored measures to improve funding and liquidity. The directors are satisfied that it is the intention of Lloyds TSB Bank 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.

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2007: £nil).

DIRECTORS

The names of the directors of the company are shown on page 1. The following changes in directors have taken place during the year and since the year ended:

	Appointed	Resigned/ceased to be a director
A M Basing		7 September 2009
P Higgins		16 May 2008
R A Isaacs	23 May 2008	
A B Vowles		21 May 2008

RESPONSIBILITIES OF DIRECTORS

The directors are responsible for preparing 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to 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. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. For further details please refer to note '18 – Risk management of financial instruments' in these financial statements.

KEY PERFORMANCE INDICATORS ('KPIs')

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

REPORT OF THE DIRECTORS

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS), regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Orderline 0845-0150010 (quoting ref. URN 04/606).

The company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the company owed no amounts to trade creditors at 31 December 2008, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil.

On behalf of the board

S Slattery
Secretary

16 December 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF LLOYDS TSB LEASING (NO.8) LIMITED

We have audited the financial statements of Lloyds TSB Leasing (No.8) Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Shareholder's Equity, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

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 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 European Union, of the state of the company's affairs as at 31 December 2008 and of its profit and cash flows 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Hays Galleria
1 Hays Lane
London
SE1 2RD

21st December 2009

INCOME STATEMENT
For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Finance income	2	17,034	12,732
Finance costs	3	(13,922)	(13,603)
		3,112	(871)
Other operating income	4	221	31
Other operating expenses	5	(30,192)	-
Impairment credit/(charge)	6	20	(20)
Administration expenses		(179)	(126)
Foreign exchange gain/(loss)		92,383	(5,505)
Fair value of hedging derivatives recycled from other reserves	16	(86,063)	5,505
Loss before taxation	7	(20,698)	(986)
Taxation credit	8	28,767	2,516
Profit for the year		8,069	1,530

The accompanying notes are an integral part of the Financial Statements.

BALANCE SHEET
As at 31 December 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Assets					
Non-current assets					
Finance lease receivables	9	17,022		244,891	
Deferred taxation	14	57,227	74,249	-	244,891
Current assets					
Amounts owed by group companies	10	2,635		28,333	
Other debtors		-	2,635	680	29,013
Total assets			76,884		273,904
Liabilities					
Current liabilities					
Amounts owed to group companies	11	68,063		248,392	
Deferred fee income	13	2	68,065	34	248,426
Non-current liabilities					
Deferred fee income	13	35		748	
Deferred taxation	14	-	35	29,071	29,819
Total liabilities			68,100		278,245
Equity					
Share capital	15	-		-	
Other reserves	16	-		(5,056)	
Retained earnings	17	8,784	8,784	715	(4,341)
Total liabilities and equity			76,884		273,904

The directors approved the accounts on 16 December 2009.

R A Isaacs
Director

The accompanying notes are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 31 December 2006	15,16,17	-	(1,461)	(815)	(2,276)
Profit for the year	17	-	-	1,530	1,530
Change in fair value of derivatives	16	-	1,910	-	1,910
Fair value of hedging derivatives recycled to income statement	16	-	(5,505)	-	(5,505)
Balance at 31 December 2007	15,16,17	-	(5,056)	715	(4,341)
Profit for the year	17	-	-	8,069	8,069
Change in fair value of derivatives	16	-	(81,007)	-	(81,007)
Fair value of hedging derivatives recycled to income statement	16	-	86,063	-	86,063
Balance at 31 December 2008	15,16,17	-	-	8,784	8,784

The accompanying notes are an integral part of the Financial Statements.

CASH FLOW STATEMENT
For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Net cash flow from operating activities	19	3,731	(96)
Net movement in cash and cash equivalents		3,731	(96)
Cash and cash equivalents at beginning of the year		(1,096)	(1,000)
Cash and cash equivalents at end of the year		2,635	(1,096)
Cash and cash equivalents are comprised of:			
Bank deposits	10	2,635	665
Bank overdraft	11	-	(1,761)
		2,635	(1,096)

The accompanying notes are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and all derivative contracts, on the basis of IFRS.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

- Impairment

The company regularly reviews the portfolio of financial assets for impairment. In determining whether an impairment has occurred at the balance sheet date the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on repayments or values of underlying assets. Where this is the case, the impairment loss is measured in accordance with note 1 (c) below.

(a) Financial assets and liabilities at fair value through the profit or loss

Other financial assets and liabilities at fair value through profit or loss are designated as such by management upon initial recognition. Such assets and liabilities are carried in the balance sheet at their fair value and gains and losses arising from changes in fair value are recognised in the income statement within net trading income in the period in which they occur. Financial assets and liabilities are designated as at fair value through profit or loss on acquisition, when doing so results in more relevant information because either:

- it eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group which is managed, and its performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy with management information also prepared on this basis.

(b) Leases

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all 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 amount due from a lessee is recorded as a receivable at the present value of the lease payments being the company's net investment in the lease. Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the company's net investment in the lease.

Initial direct costs attributed to negotiating and arranging a finance lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

(c) Impairment

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's implicit rate in the lease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as a credit to the income statement.

(d) Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred taxation 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. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred taxation asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects 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.

(e) Dividends

Dividends are recognised in equity only when the company has the obligation to pay the ordinary shareholder.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

(f) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, bank overdraft and demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Fair value

The fair value of finance lease receivables is derived from a present value cash flow model of expected cash flows from the lease using current market interest rates and margin for the risks inherent in the lease.

(h) Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

The method of recognising the movements in the fair value of the derivatives depends on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Derivatives may only be designated as hedges provided certain strict criteria are met. At the inception of a hedge its terms must be clearly documented and there must be an expectation that the derivative will be highly effective in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship must be tested throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its objective the hedge relationship is terminated.

The company designates derivatives as hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedges).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(i) Deferred fees

Fees that can be attributed to negotiating and arranging a lease are capitalised in the balance sheet and subsequently amortised to the income statement over the lease term.

(j) Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in sterling, which is the company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges.

(k) Prior year adjustments and restatement of comparatives

The prior year comparatives have been adjusted to conform to the current year presentation following the movement of amortisation of deferred fee income from finance income to other operating income (note 4). The adjustment had no impact on the results of the company.

2 Finance Income

Finance income represents the income component of finance lease receivables earned in the year, being finance lease rentals less capital repayment.

3 Finance costs

	2008 £000	2007 £000
Interest payable on bank loans to other group companies	13,922	13,603

4 Other operating income

	2008 £000	2007 £000
Amortisation of deferred fee income (Note 13)	34	31
Currency swaps & interest swaps: Fair value through profit and loss	187	-
	221	31

NOTES TO THE FINANCIAL STATEMENTS

5 Other operating expenses

	2008	2007
	£000	£000
Loss on sale of finance lease receivables	30,192	-

On 31 December 2008, the company transferred 95% of the cash flows receivable under the portfolio of finance leases to a fellow subsidiary of the Lloyds Banking Group for £293,139,000. At that date the carrying value of the proportion of the finance lease receivables transferred have been derecognised producing a loss on transfer of £30,192,000.

6 Impairment credit/(charge)

	2008	2007
	£000	£000
Tax rate variation	20	(20)

As a result of the Finance Act 2008, the corporation tax rate has changed from 30% to 28% and changes were made to the rates of capital allowances claimed on the leased assets.

The change in corporation tax rate and capital allowances has given rise to a reduction in deferred taxation and, because of tax rate variation clauses in the leases, a reduction in the lease rentals. This reduction in rentals has given rise to a reduction in the interest rate implicit within the lease which when applied retrospectively, has produced an impairment of the finance lease receivables. The effective date for the recognition of the impairment due to change in the corporation tax rate was the year ending 31 December 2007 and capital allowances the year ending 31 December 2008.

7 Loss before taxation

Audit fees for the company are borne by the immediate parent company; the audit fee attributed to this company for the year was £8,500 (2007: £2,800). The company has no employees and the directors received no remuneration in respect of their services to the company.

8 Taxation credit

	2008	2007
The credit for the year comprises:	£000	£000
Group relief (payable)/receivable on current taxation loss for the year	(59,497)	15,634
Total group relief (payable)/receivable for year	(59,497)	15,634
Deferred taxation (Note 14)	88,264	(13,122)
Adjustment in respect of prior year	-	4
Total taxation credit for the year	28,767	2,516

Taxation on the company's loss for the year did differ from the taxation credit that would arise using the standard rate of corporation tax of 28.5% (2007: 30%). The differences are explained below:

	2008	2007
	£000	£000
Loss before taxation	(20,698)	(986)
Taxation credit at the standard rate of corporation tax	5,898	295
Permanent differences	-	-
Adjustment in respect of prior year	-	4
Group relief received for less than the standard rate of corporation tax	24,437	-
Impact of tax rate change	(1,568)	2,217
Total taxation credit for the year	28,767	2,516

As a result of the Finance Act 2008, the corporation tax rate has changed from 30% to 28% with effect from 1 April 2008. The impact of this change on the financial accounts for the year ended 31 December 2007 is to recognise a one off adjustment to the deferred taxation liability reflecting the adjustment required to remeasure the deferred taxation liability at a lower rate of tax for the remaining life of the underlying assets.

NOTES TO THE FINANCIAL STATEMENTS

9 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	2008	2007
	£000	£000	£000	£000
Amounts receivable under finance leases:				
Within 1 year	756	11,172	-	-
2-5 years inclusive	3,071	45,041	2	187
After 5 years	30,246	461,694	17,020	244,704
	34,073	517,907	17,022	244,891
Less: Unearned finance income	(17,051)	(273,016)		
Present value of minimum lease payments receivable	17,022	244,891		

	2008	2007
	£000	£000
Analysed as:		
Non-current finance lease receivables	17,022	244,891
Current finance lease receivables	-	-
	17,022	244,891

The reduction of finance lease receivables is due to the transfer of 95% of the finance lease receivables as at 31 December 2008 (see note 5). The fair value of the company's finance lease receivables at 31 December 2008 is estimated at £16 million (2007: £228 million).

10 Amounts owed by group companies

	2008	2007
	£000	£000
Bank deposits	2,635	665
Group relief receivable	-	11,282
Derivative financial instruments	-	16,386
	2,635	28,333

For further details please refer to note 20.

11 Amounts owed to group companies

	2008	2007
	£000	£000
Bank overdraft	-	1,761
Bank borrowings	-	243,326
Interest payable	30	3,305
Derivative financial instruments	62,469	-
Group relief payable	5,564	-
	68,063	248,392

For further details please refer to note 20.

NOTES TO THE FINANCIAL STATEMENTS

12 Derivative financial instruments

Derivative financial instruments include currency and interest rate swaps. Currency and interest rate swaps are agreements between two parties to exchange fixed and floating interest payments plus currency payments, based upon rates of interest and rates of exchange as defined in the contract. The fair values of these derivative financial instruments are based on discounted cash flow models as at 31 December 2008.

The principal derivatives used by the company are detailed below, as at 31 December 2008 all currency and interest rate swaps are fair valued through profit or loss.

	Contract/notional amount	Fair values	
		Assets	Liabilities
	£000	£000	£000
31 December 2008			
Currency swaps & interest swaps	59,319	-	62,469
31 December 2007			
Currency swaps & interest swaps	243,327	16,386	-

13 Deferred fee income

	2008	2007
	£000	£000
At beginning of the year	782	813
Amortised in the year	(34)	(31)
Released on sale of finance lease receivables	(711)	-
At end of the year	37	782
Analysed as:		
Non-current deferred fee income	35	748
Current deferred fee income	2	34
	37	782

14 Deferred taxation

	2008	2007
	£000	£000
At beginning of the year	29,071	17,318
Deferred taxation (credit)/charge for the year	(88,264)	13,122
Adjustment in respect of prior year	-	(4)
Movement in other reserves	1,966	(1,365)
At end of the year	(57,227)	29,071

The deferred taxation (credit)/charge in the income statement comprises the following differences:

	2008	2007
	£000	£000
Accelerated tax depreciation	(69,319)	15,339
Impact of tax rate change	-	(2,217)
Other temporary differences	(18,945)	-
Total deferred taxation (credit)/charge	(88,264)	13,122

NOTES TO THE FINANCIAL STATEMENTS

14 Deferred taxation (continued)

Deferred taxation assets and liabilities are comprised as follows:

	2008	2007
	£000	£000
Deferred taxation assets		
Accelerated accounting depreciation	38,282	-
Cash flow hedges	-	1,966
Group relief unpaid	18,945	-
	57,227	1,966
Deferred taxation liabilities		
Accelerated tax depreciation	-	31,037

15 Share capital

	2008	2007
	£	£
Authorised, allotted and issued:		
Ordinary shares of £1 each	100	100

The company's immediate parent company is Lloyds TSB Leasing Limited. The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc (formerly Lloyds TSB 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. Lloyds TSB Bank plc is the parent company of the smallest such group of undertakings. Copies of the group accounts of both may be obtained from the company secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

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 shareholder 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 makes 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 company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares or enter into debt financing.

The company's capital comprises all components of equity, movements in which appear in the statement of changes in equity and bank borrowings as disclosed in note 11.

16 Other reserves

	2008	2007
	£000	£000
At beginning of the year	(5,056)	(1,461)
Change in fair value of cash flow hedges	(79,041)	545
Deferred taxation thereon	22,508	1,488
Impact of tax rate change	(377)	(123)
Fair value of hedging derivatives recycled to income statement	86,063	(5,505)
Release of deferred tax	(24,097)	-
At end of the year	-	(5,056)

The company has undertaken a cash flow hedge in relation to its finance lease receivables. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

17 Retained earnings

	2008 £000	2007 £000
At beginning of the year	715	(815)
Profit for the year	8,069	1,530
At end of the year	8,784	715

18 Risk management of financial instruments

The primary financial risks affecting the company are: credit risk and liquidity risk and market risk (which include interest rate risk and foreign currency risk). Information on the management of these financial risks and further disclosures is given below.

In accordance with IAS 39 "Financial instruments: Recognition and measurement" Finance lease receivables are designated as loans and receivables and all other financial assets and liabilities other than derivatives are designated as held at amortised cost. The accounting policies in note 1 describe how different classes of financial instruments are measured and how income and expenses are recognised.

Credit risk management:

The maximum credit risk exposure of the group in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount at 31 December 2008.

Financial assets which are neither past due nor impaired:	2008 £000	2007 £000
Finance lease receivables	17,022	244,891
Amounts owed by group companies	2,635	28,333
Other debtors	-	680
Total credit risk exposure	19,657	273,904

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc (formerly Lloyds TSB Group plc). Each financial asset is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group plc. Credit ratings of the lease counterparties are monitored, where necessary revised, over the life of the lease.

Financial assets by credit rating:	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
At 31 December 2008							
Finance lease receivables	-	17,022	-	-	-	-	17,022
Amounts owed by group companies	2,635	-	-	-	-	-	2,635
Other debtors	-	-	-	-	-	-	-
Total	2,635	17,022	-	-	-	-	19,657
At 31 December 2007							
Finance lease receivables	-	-	244,891	-	-	-	244,891
Amounts owed by group companies	28,333	-	-	-	-	-	28,333
Other debtors	3	-	677	-	-	-	680
Total	28,336	-	245,568	-	-	-	273,904

NOTES TO THE FINANCIAL STATEMENTS

18 Risk management of financial instruments (continued)

At the balance sheet date the company assesses if there is objective evidence that the financial assets have become impaired. Evidence of impairment may include indications that the counterparty is experiencing financial difficulty, default or delinquency in lease rentals or debt restructurings to reduce the financial burden on the lessee.

At 31 December 2008 and 2007 there were no impairments relating to credit risk against finance lease receivables nor any lease receivables past due on scheduled lease payments. The company's credit risk exposure under short–term debtors, deposits and other financial assets are represented by the book values in the above table.

Liquidity risk management

At 31 December 2008	Bank overdraft £000	Bank borrowings £000	Other liabilities £000	Total liabilities £000
On demand	-	-	5,594	5,594
Up to 1 Month	-	-	-	-
1-3 Months	-	-	-	-
3-12 Months	-	-	-	-
1-5 Years	-	-	-	-
Over 5 years	-	-	-	-
Total	-	-	5,594	5,594

At 31 December 2007	Bank overdraft £000	Bank borrowings £000	Other liabilities £000	Total liabilities £000
On demand	1,761	-	-	1,761
Up to 1 Month	-	246,631	-	246,631
1-3 Months	-	-	-	-
3-12 Months	-	-	-	-
1-5 Years	-	-	-	-
Over 5 years	-	-	-	-
Total	1,761	246,631	-	248,392

Bank borrowings and the associated interest payable upon them are borrowed short term and and all borrowings are advanced by a fellow subsidiary undertaking. Other liabilities are repayable on demand.

Interest rate risk management

Interest rate risk is the risk that the future cash flows and fair values of a financial instrument may fluctuate because of changes in market interest rates.

The company takes into account the exposure on fluctuations in the prevailing levels of market interest rates on its cash flows when structuring its operations by ensuring the interest terms of the finance income is matched to the terms of its borrowings.

Where interest rate risk is not covered by the structure of the assets and liabilities, where required, the company will enter into interest rate swap transactions to hedge against any cash flow interest rate risk.

Interest rate sensitivity analysis – Impact on income statement

	Carrying value £000	+25 bp £000	-25 bp £000
Financial assets			
Finance lease receivables	17,022	43	(43)
Impact of taxation (28.5%)		(12)	12
Impact on financial assets after tax		31	(31)
Total volatility of financial instruments		31	(31)

The degree of interest rate sensitivity is based on the minimum movement in base rate levels as applied by the Bank of England's Monetary Policy Committee.

NOTES TO THE FINANCIAL STATEMENTS

18 Risk management of financial instruments (continued)

Currency risk

Foreign currency risk - Carrying amount As at 31 December 2008	GBP £000	USD $000
Financial assets		
Finance lease receivables	-	24,827
Amounts owed by group companies	2,635	-
Other debtors	-	-
Financial liabilities		
Amounts owed to group companies	68,063	-

Foreign currency risk - Carrying amount As at 31 December 2007	GBP £000	USD $000
Financial assets		
Finance lease receivables	-	486,196
Amounts owed by group companies	28,333	-
Other debtors	680	-
Financial liabilities		
Amounts owed to group companies	248,392	-

The company's exposure to foreign currency fluctuations arises due to its financial assets and borrowings in foreign currencies. The company hedges the majority of its foreign currency exposure by matching the foreign currency assets with its foreign currency liabilities.

19 Notes to the cash flow statement

	2008 £000	2007 £000
Loss from operations	(20,698)	(986)
Less non cash items:		
Deferred fee income	(221)	(31)
Impairment (credit)/charge	(20)	20
Foreign exchange (gain)/loss	(92,383)	5,505
Loss on sale of finance lease asset	30,192	-
Fair value of hedging derivatives recycled from other reserves	86,063	(5,505)
Operating cash flows before movements in working capital	2,933	(997)
Movement in receivables	290,760	(56,232)
Movement in payables	(247,310)	42,233
Cash generated by operations	46,383	(14,996)
Group relief (paid)/received	(42,652)	14,900
Net cash flow from operating activities	3,731	(96)

NOTES TO THE FINANCIAL STATEMENTS

20 Related parties

The company's related parties include other companies in the Lloyds Banking Group and the company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company, which is determined to be the company's directors.

In respect of related party transactions, the outstanding balances receivable/(payable) at 31 December were as follows:

Nature of transaction	Related party	2008 £000	2007 £000
Bank deposits	Fellow subsidiary undertaking	2,635	665
Group relief (payable)/receivable	Immediate parent undertaking	(5,564)	11,282
Derivative financial instruments	Immediate parent undertaking	(62,469)	16,386
Bank overdraft	Fellow subsidiary undertaking	-	(1,761)
Bank borrowings	Fellow subsidiary undertaking	-	(243,326)
Interest payable	Fellow subsidiary undertaking	(30)	(3,305)

Bank borrowings are interest bearing and during the year rates of interest of up to 6.29% (2007: 6.29%) were charged. Finance costs of £13,922,000 (2007: £13,603,000) were incurred during the year.

The company paid a management fee of £179,000 (2007: £126,000) to its immediate parent company, Lloyds TSB Leasing Limited. During the year the company sold 95% of the finance lease portfolio to a fellow group subsidiary for £293,139,000. Further information is disclosed in note 5 to the financial statements.

The company paid group relief of £42,652,000 (2007: £14,900,000 received) during the year to Lloyds TSB Bank plc.

21 Future developments

The following accounting standard change will impact the company in the next financial period.

Pronouncement	Nature of change	Effective date
Revised IAS 1	Introduces changes to the presentation of the balance sheet, income statement and cash flow statement.	Annual periods beginning on or after 1 January 2009.

The full impact of this pronouncement is being assessed by the company; this pronouncement is not expected to cause any material impact to the financial statements.