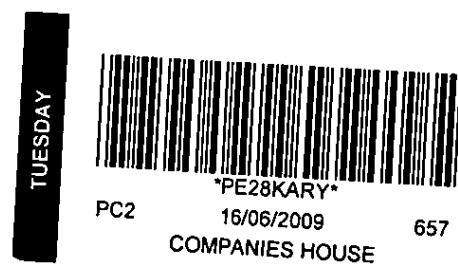


**CAPITAL BANK INSURANCE SERVICES LIMITED**  
**REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

Company no. 2014522



# **CAPITAL BANK INSURANCE SERVICES LIMITED**

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# **CAPITAL BANK INSURANCE SERVICES LIMITED**

## **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2008**

### Directors

A.F. Kirkwood (resigned 8<sup>th</sup> December 2008)  
T. Woolgrove (resigned 8<sup>th</sup> December 2008)  
J. Carson (appointed 8<sup>th</sup> December 2008)  
HBOS Directors Limited (appointed 5<sup>th</sup> March 2009)

### Secretary

HBOS Secretaries Limited

### Registered Office

Trinity Road  
Halifax  
West Yorkshire  
HX1 2RG

### Auditors

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

# **CAPITAL BANK INSURANCE SERVICES LIMITED**

## **REPORT OF THE DIRECTORS**

The Directors hereby submit their Report and audited Accounts of Capital Bank Insurance Services Limited ("the Company") for the year ended 31 December 2008.

### Incorporation

The Company was incorporated on 28<sup>th</sup> April 1986.

### Activity and review of business


The principal activity of the Company was the provision of finance and associated insurance services. However, the Company ceased to write new business from 30 November 2000 and did not trade during the year. The Company no longer holds any trading assets or liabilities with third parties outside the HBOS group.

The Articles of Association do not provide for the retirement of Directors by rotation.

### Audit Information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they each are aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that 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.

By order of the Board



For and behalf of  
HBOS Secretaries Limited  
Secretary

### Registered Office

Trinity Road  
Halifax  
West Yorkshire  
HX1 2RG

1 June 2009

## **CAPITAL BANK INSURANCE SERVICES 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 they 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 the 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 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# **CAPITAL BANK INSURANCE SERVICES LIMITED**

## **Independent Auditor's Report to the Members of CAPITAL BANK INSURANCE SERVICES LIMITED**

We have audited the financial statements of Capital Bank Insurance Services Limited for the year ended 31 December 2008, which comprise the Income Statement, Balance Sheet, Cash Flow Statement and Statement of Recognised Income and Expense and 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 4.

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 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 IFRS's as adopted by the EU, of the state of the company's affairs as at 31 December 2008 and of its result for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the financial statements.

*KPMG Audit Plc*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
Edinburgh

1 June 2009

# CAPITAL BANK INSURANCE SERVICES LIMITED

## INCOME STATEMENT

During the financial year and the preceding financial year the company did not trade and received no income and incurred no expenditure. Consequently, during those years the company made neither a profit nor a loss.

## BALANCE SHEET

As at 31 December 2008

	2008 (£000)	2007 (£000)
<b>Assets</b>		
Amount owed by immediate parent undertaking	2	2
<b>Total assets</b>	<u>2</u>	<u>2</u>
<b>Equity</b>		
Issued capital	2	2
<b>Total equity</b>	<u>2</u>	<u>2</u>
<b>Total equity and liabilities</b>	<u>2</u>	<u>2</u>

## STATEMENT OF RECOGNISED INCOME AND EXPENSE

There were no items of income or expenditure during the year or prior year. Consequently no separate statement of recognised income and expenditure has been presented.

## CASH FLOW STATEMENT

There were no cash movements during the year ended 31 December 2008 (2007: Nil)

Approved by the Board of Directors on 1 June 2009 and signed on its behalf by:

Lysanne O'Black. Director  
For and on behalf of  
HBOS Directors Limited

# **CAPITAL BANK INSURANCE SERVICES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. Significant accounting policies**

Capital Bank Insurance Services Limited (the "Company") is domiciled in England.

#### **(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as endorsed by the EU and effective (or available for early adoption) at 31 December 2008.

The accounting policies set out below have been applied in respect of the financial year ended 31 December 2008.

#### **(b) Basis of preparation**

During 2008, global financial markets experienced difficult conditions which have been characterised by a marked reduction in liquidity. As a consequence of this, governments and central banks carried out a series of actions to address the lack of liquidity within their respective banking systems. In the UK these actions have included the introduction by the Bank of England of liquidity support, through schemes (collectively "Bank of England facilities") such as the extended Long-Term Repo open market operations and the Special Liquidity Scheme ('SLS') whereby banks and building societies can exchange eligible securities for UK Treasury bills; and the creation of a credit guarantee scheme by HM Treasury, providing a government guarantee for certain short and medium term senior debt securities issued by eligible banks. During 2008 HBOS plc has made use of these measures in order to maintain and improve a stable funding position.

In the context of this continued turbulence and uncertainty in the financial markets, combined with a deteriorating global economic outlook, HBOS plc has also taken steps to strengthen its capital position in order to provide a buffer against further shocks to the financial systems and to ensure that it remains competitive. On 15 January 2009, in conjunction with the takeover of HBOS plc by Lloyds TSB Group plc, HBOS plc raised £11,345m (net after costs) in preference and ordinary share capital.

On 16 January 2009, following completion of the acquisition of the Group by Lloyds Banking Group plc, the Group became a wholly owned subsidiary and became dependent upon the ultimate parent and its banking subsidiaries for its capital, liquidity funding needs.

There is a risk despite the substantial measures taken so far by governments that further deterioration in the markets could occur. In addition the economic conditions in the UK are deteriorating more quickly than previously anticipated placing further strain on the Lloyds Banking Group's capital resources. The key dependencies on successfully funding the Lloyds Banking Group's balance sheet include the continued functioning of the money and capital markets at their current levels; the continued access of the Lloyds Banking Group to central bank and Government sponsored liquidity facilities including access to HM Treasury's credit guarantee scheme and access to the Bank of England's various facilities; limited further deterioration in the Lloyds Banking Group's credit ratings; and no significant or sudden withdrawal of deposits resulting in increased reliance on money markets or Government support schemes.

Based upon projections prepared by Lloyds Banking Group plc management which take into account the acquisition on 16 January 2009 of HBOS plc and its subsidiaries, together with the Lloyds Banking Group's current ability to fund in the market and the



## **CAPITAL BANK INSURANCE SERVICES LIMITED**

### **Basis of preparation continued**

assumption that announced government sponsored schemes will continue to be available, the directors are satisfied that the Company have adequate resources to continue in business for the foreseeable future. The Company has received confirmation that it is the current intention of Lloyds Banking Group plc to ensure that the Company, as a subsidiary of HBOS plc, should have at all times for the foreseeable future access to adequate resources to continue to trade and meet their liabilities as they fall due. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

### **(c) Share Capital**

Ordinary shares are classified as equity. Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable, but only at the option of the Directors.

## **2. Related parties**

On 17 September 2007 in accordance with the provisions of the HBOS Group Reorganisation Act 2006 ('the Act'), the Governor and Company of the Bank of Scotland registered as a public limited company under the Companies Act and changed its name to Bank of Scotland plc. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of CAPITAL BANK plc, Halifax plc and HBOS Treasury Services plc transferred to Bank of Scotland plc.

## **3. Post Balance Sheet Events**

On 7 March 2009, the Company's ultimate parent undertaking, Lloyds Banking Group plc ("LBG"), announced its intention to participate in the Government's Asset Protection Scheme. LBG intends to participate in the Scheme in respect of assets and exposures on its consolidated balance sheet with an aggregate book value of approximately £250bn and will pay a fee to HM Treasury of £15.6bn which will be amortised over an estimated 7 year period. The proceeds of this fee will be applied by HM Treasury in subscribing for an issue of "B" shares of LBG, carrying a dividend of the greater of 7 per cent per annum and 125 per cent of the dividend on ordinary shares.

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

Participation in the Scheme and the replacement of the preference shares is subject to approval by eligible LBG shareholders

## **4. Ultimate parent undertaking**

As at 31 December 2008 the Company's immediate parent company was Bank of Scotland plc. The company regarded by the directors as the ultimate parent company at 31 December 2008 was HBOS plc, a limited liability company incorporated and domiciled in Scotland, which was also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member.

From 16<sup>th</sup> January 2009, Capital Bank Insurance Services Limited's ultimate parent undertaking and controlling party is Lloyds Banking Group plc (formerly Lloyds TSB Group) which is incorporated

## **CAPITAL BANK INSURANCE SERVICES LIMITED**

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 the 16<sup>th</sup> January 2009, HBOS plc was the ultimate parent undertaking of Capital Bank Insurance Services 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.