

**Company Registration No: 01919512**

**LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 December 2007**

**Group Secretariat  
The Royal Bank of Scotland Group plc  
3 Princess Way  
Redhill  
Surrey  
RH1 1NP**

**MONDAY**



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# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

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**LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**  
**R A Bailey**  
**N Kapur**  
**P A Lynam**

**SECRETARY:**  
**C J Whittaker**

**REGISTERED OFFICE:**  
**3 Princess Way**  
**Redhill**  
**Surrey**  
**RH1 1NP**

**PRINCIPAL PLACE OF  
BUSINESS:**  
**7-10 Brindleyplace**  
**Birmingham**  
**B1 2TZ**

**AUDITORS:**  
**Deloitte & Touche LLP**  
**Birmingham**

**Registered in England and Wales.**

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2007.

## **ACTIVITIES AND BUSINESS REVIEW**

### **Activity**

The principal activity of the Company continues to be vehicle leasing

The Company is a subsidiary of The Royal Bank of Scotland Group plc which provides the Company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's web site at rbs.com

### **Review of the year**

The directors are satisfied with the development of the Company's activities during the year. The Company will be guided by its immediate parent company in seeking further opportunities for growth. A dividend of £6,000,000 was paid during the year (2006: £nil).

The Company's financial performance is presented in the Income Statement on Page 7. At the end of the year, the financial position showed total assets of £247,804,000 (2006: £242,523,000) and equity of £4,565,000 (2006: £8,874,000).

The Company is funded by facilities from other members of the Royal Bank of Scotland group. It seeks to minimise its exposure to external financial risks other than credit risk. Further information on financial risk management policies and exposures is disclosed in Notes 3 and 22. It also has exposure to asset risk on the residual value of property, plant and equipment.

The directors do not anticipate any material change in either the type or level of activities of the Company.

## **DIRECTORS AND SECRETARY**

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1.

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **DIRECTORS' REPORT (Continued)**

### **ACTIVITIES AND BUSINESS REVIEW (Continued)**

#### **DIRECTORS AND SECRETARY (Continued)**

From 1 January 2007 to date the following changes have taken place

<b>Directors</b>	<b>Appointed</b>	<b>Resigned</b>
N Kapur	14 May 2007	
P G Denman		29 November 2007
S N Parsonson		21 April 2008

#### **DIRECTORS' RESPONSIBILITIES**

The directors are required by the Companies Acts 1985 and 2006 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of the Company. In preparing these 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to ensure that the directors' report and financial statements comply with the requirements of the Companies Acts 1985 and 2006. 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.

#### **USE OF FINANCIAL INSTRUMENTS**

The Company's financial risk management policies and exposure in relation to the respective risks are detailed in note 22 of the financial statements.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the directors at the date of approval of this report confirms that

- (a) so far as he is aware there is no relevant audit information of which the Company's auditors are unaware, and

## **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

### **DIRECTORS' REPORT (Continued)**

#### **DISCLOSURE OF INFORMATION TO AUDITORS (Continued)**

(b) the director has taken all the steps that he ought to have taken to make himself aware of any audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and shall be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

#### **DIRECTORS' INDEMNITIES**

In terms of section 236 of the Companies Act 2006, Mr R A Bailey, Mr P A Lynam and Mr S N Parsonson had been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

#### **POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

The Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc ('RBSG'), as outlined below

RBSG is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is RBSG's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed

#### **AUDITORS**

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors

Approved by the Board of Directors  
and signed on behalf of the Board



**R A Bailey**  
**Director**

Date 27th June 2008

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

We have audited the financial statements of Lombard Vehicle Management (1) Limited ('the Company') for the year ended 31 December 2007 which comprise the income statement, the statement of changes in equity, the balance sheet, the cash flow statement and the related notes 1 to 26. 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 auditors' 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 Directors' Report and 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 Directors' Report.

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 for the above year and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Directors' Report.

### **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 circumstances of the Company, consistently applied and adequately disclosed.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOMBARD VEHICLE MANAGEMENT  
(1) LIMITED (Continued)**

**BASIS OF AUDIT OPINION (continued)**

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 of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union,
- 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

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
**Chartered Accountants and Registered Auditors**  
**Birmingham, United Kingdom**  
**Date:** *30 June 2008*



# LOMBARD VEHICLE MANAGEMENT (1) LIMITED

## INCOME STATEMENT

for the year ended 31 December 2007

	Note	2007 <u>£'000</u>	2006 <u>£'000</u>
<b>Continuing operations</b>			
Revenue	4	74,877	76,746
Depreciation on property, plant and equipment	14	(51,546)	(54,879)
Other operating income	5	6,768	6,613
Other operating charges	6	<u>(19,017)</u>	<u>(23,440)</u>
<b>Operating profit</b>		11,082	5,040
Finance income	7	-	3
Finance costs	8	<u>(9,433)</u>	<u>(8,224)</u>
<b>Profit/(loss) before tax</b>		1,649	(3,181)
Tax credit	9	<u>42</u>	<u>992</u>
<b>Profit/(loss) for the year attributable to the equity holders of the Company</b>	10, 21	<u><u>1,691</u></u>	<u><u>(2,189)</u></u>

The notes on pages 11 to 26 form a part of these financial statements

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2007

	Share capital <u>£'000</u>	Retained earnings <u>£'000</u>	Total equity <u>£'000</u>
At 1 January 2006	-	11,063	11,063
Loss for the year	-	(2,189)	(2,189)
At 31 December 2006	<u>-</u>	<u>8,874</u>	<u>8,874</u>
At 1 January 2007	-	8,874	8,874
Profit for the year	-	1,691	1,691
Dividends paid	-	(6,000)	(6,000)
At 31 December 2007	<u>-</u>	<u>4,565</u>	<u>4,565</u>

The notes on pages 11 to 26 form a part of these financial statements

# LOMBARD VEHICLE MANAGEMENT (1) LIMITED

## BALANCE SHEET at 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Non-current assets</b>			
Finance lease receivables	12	-	61
Property, plant and equipment	14	227,339	218,843
		<u>227,339</u>	<u>218,904</u>
<b>Current assets</b>			
Finance lease receivables	12	8,803	9,634
Trade and other receivables	16	2	179
		<u>8,805</u>	<u>9,813</u>
Assets held for sale	17	11,660	13,806
<b>Total assets</b>		<u>247,804</u>	<u>242,523</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	15	(14,858)	(14,251)
		<u>(14,858)</u>	<u>(14,251)</u>
<b>Current liabilities</b>			
Amounts owed to group undertakings	18	(212,008)	(202,806)
Trade and other payables	19	(16,373)	(16,592)
		<u>(228,381)</u>	<u>(219,398)</u>
<b>Total liabilities</b>		<u>(243,239)</u>	<u>(233,649)</u>
<b>Net assets</b>		<u>4,565</u>	<u>8,874</u>
<b>Equity</b>			
Share capital	20	-	-
Reserves	21	4,565	8,874
<b>Total equity attributable to the equity holders of the Company</b>		<u>4,565</u>	<u>8,874</u>

The financial statements were approved by the board of directors and authorised for issue on 27th June 2008 and were signed on its behalf by



**R A Bailey**  
Director

The notes on pages 11 to 26 form a part of these financial statements

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **CASH FLOW STATEMENT**

**for the year ended 31 December 2007**

	<b>Note</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
<b>Operating activities</b>			
Profit/(loss) before tax		<b>1,649</b>	(3,181)
<i>Adjustments for</i>			
Depreciation on property, plant and equipment	14	<b>51,546</b>	54,879
Profit on disposal of property, plant and equipment	10	<b>(572)</b>	(904)
Finance income	7	-	3
Finance costs	8	<b>(9,433)</b>	(8,224)
<b>Operating profit before changes in working capital</b>		<b>43,190</b>	42,573
Decrease/(Increase) in finance lease receivables	12	<b>892</b>	(5,693)
Decrease in trade and other receivables	16	<b>177</b>	219
Increase in amounts owed to group undertakings	18	<b>9,852</b>	12,088
Decrease in trade and other payables	19	<b>(219)</b>	(6,536)
<b>Net cash generated from the operations</b>		<b>53,892</b>	42,651
Interest received		-	(3)
Interest paid		<b>9,433</b>	8,224
<b>Net cash from operating activities</b>		<b>9,433</b>	8,221
<b>Investing activities</b>			
Proceeds from disposal of property, plant and equipment		<b>51,224</b>	35,478
Acquisition of property, plant and equipment	14	<b>(108,549)</b>	(86,350)
<b>Net cash used in investing activities</b>		<b>(57,325)</b>	(50,872)
<b>Financing activities</b>			
Dividends paid	11	<b>(6,000)</b>	-
<b>Net cash used in financing activities</b>		<b>(6,000)</b>	-
<b>Net increase in cash and cash equivalents</b>		-	-
Cash and cash equivalents at 1 January		-	-
<b>Cash and cash equivalents at 31 December</b>		-	-

The notes on pages 11 to 26 form a part of these financial statements

# LOMBARD VEHICLE MANAGEMENT (1) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

### 1 General information

Lombard Vehicle Management (1) Limited is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is on page 1. The nature of the Company's principal activities are set out in the Directors' Report.

### 2 Adoption of new and revised Standards

In the current year the Company has adopted IFRS 7 *Financial Instrument Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007 and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and the management of capital.

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*, IFRIC 8 *Scope of IFRS 2*, IFRIC 9 *Reassessment of Embedded Derivatives*, and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these has not led to any changes in the Company's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective: IFRS 8 *Operating Segments*, IFRIC 11 *IFRS2 - Group and Treasury Share Transactions*, IFRIC 12 *Service Concession Arrangements*, IFRIC 13 *Customer Loyalty Programmes* and IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

### 3 Accounting policies

#### a. Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the European Union.

The financial statements have been prepared upon the basis of historical cost except as noted in the following accounting policies and are presented in accordance with applicable United Kingdom law.

# LOMBARD VEHICLE MANAGEMENT (1) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

### 3 Accounting policies (continued)

#### b. Revenue recognition

Revenue from finance leases and operating leases are recognised in accordance with Company's policies on leases (see below)

Revenue arises in the United Kingdom from continuing activities

#### c. Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer. Other contracts to lease assets are classified as operating leases.

Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

Unguaranteed residual values are subject to regular review to identify potential impairment. If there has been a reduction in the estimated unguaranteed residual value, the income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment.

Operating lease rentals are recognised on an accruals basis.

#### d. Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is charged to the income statement on a straight-line basis so as to write them down to their estimated residual value over their estimated useful lives, as follows:

	<u>Estimated useful life</u>
Operating lease assets	Term of contract

#### e. Impairment of tangible assets

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised as an expense immediately.

## **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007**

#### **3 Accounting policies (continued)**

##### **e. Impairment of tangible assets (continued)**

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 income immediately.

##### **f. Taxation**

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

##### **g. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **h. Trade and other receivables**

Trade and other receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

##### **i. Amounts owed to group undertakings**

Amounts owed to group undertakings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Finance costs incurred on borrowings from group undertakings are recognised in the income statement in the period in which they are incurred.

##### **j. Trade and other payables**

Trade and other payables are measured at fair value.

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

#### 3 Accounting policies (continued)

##### k. Other operating income

Other operating income is accounted for on an accruals basis

##### l. Other operating charges

Other operating charges include provisions for bad and doubtful debts and other operating charges. Individually assessed provisions are made against advances for which recovery is considered to be doubtful. Collectively assessed provision is made in respect of losses which, although not separately identified, are from experience known to be present in any portfolio of financial assets. Other operating charges/credits are accounted for on an accruals basis.

##### m. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

- Provisions for bad and doubtful debt
- Impairment of unguaranteed residual values

The Company's policy for provisions and impairment of unguaranteed residual values is noted above.

#### 4 Revenue

	2007 £'000	2006 £'000
Operating lease income	73,996	75,668
Finance lease income	762	833
Other revenue	119	245
	<u>74,877</u>	<u>76,746</u>

#### 5 Other operating income

	2007 £'000	2006 £'000
Other income	6,768	6,613
	<u>6,768</u>	<u>6,613</u>



## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

#### 6 Other operating charges

	2007	2006
	<u>£'000</u>	<u>£'000</u>
Commission payable	(2,195)	(2,012)
Bad debt charge	(356)	(3,423)
Management fees	(3)	(7)
Audit Fees	(5)	(5)
Management charges	(6,850)	(7,076)
Operating Lease Costs	(9,608)	(10,917)
	<u>(19,017)</u>	<u>(23,440)</u>

The Company had no employees in the current year (2006 none)

Employee costs are incurred by the related company, Lombard Vehicle Management Limited, and allocated together with other overheads by way of a management charge to the Company

#### 7 Finance income

	2007	2006
	<u>£'000</u>	<u>£'000</u>
On loans and receivables	-	3
From group undertakings	-	3
	<u>-</u>	<u>3</u>

#### 8 Finance costs

	2007	2006
	<u>£'000</u>	<u>£'000</u>
On loans and payables	(9,433)	(8,224)
To group undertakings	(9,433)	(8,224)
	<u>(9,433)</u>	<u>(8,224)</u>

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** for the year ended 31 December 2007

### **9 Tax credit on profit before tax**

#### A) Analysis of credit for the year

	<b>2007</b>	2006
	<b><u>£'000</u></b>	<u>£'000</u>
Current taxation		
Income tax credit for the year	<b>906</b>	1,424
Under/(Over) provision in respect of prior periods	<b>(257)</b>	140
Current tax credit for the year	<u><b>649</b></u>	<u>1,564</u>
Deferred taxation		
Charge for the year	<b>(313)</b>	(432)
Under provision in respect of prior periods	<b>(294)</b>	(140)
	<u><b>(607)</b></u>	<u>(572)</u>
Tax credit for the year	<u><u><b>42</b></u></u>	<u><u>992</u></u>

#### B) Factors affecting the tax credit for the year

The actual tax credit differs from the expected tax credit computed by applying the standard rate of UK corporation tax of 30% (2006 30%) as follows

	<b>2007</b>	2006
	<b><u>£'000</u></b>	<u>£'000</u>
Expected tax charge/(credit)	<b>(495)</b>	954
Capital gains taxed at other rates	-	23
Adjustments in respect of prior periods	<b>(551)</b>	-
Future tax rate change	<b>1,062</b>	-
Non-taxable items	<b>26</b>	15
Actual tax credit	<u><u><b>42</b></u></u>	<u><u>992</u></u>

### **10 Profit for the year**

Profit for the year has been arrived at after charging/(crediting)

	<b>2007</b>	2006
	<b><u>£'000</u></b>	<u>£'000</u>
Profit on disposal of property, plant and equipment	<u><u><b>(572)</b></u></u>	<u><u>(904)</u></u>
Auditors' remuneration		
Audit services	<u><u><b>5</b></u></u>	<u><u>5</u></u>
	<u><u><b>5</b></u></u>	<u><u>5</u></u>

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2007**

### **11 Dividends**

	<b>2007</b>	<b>2006</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Final dividend paid £60,000 per ordinary share (2006 £nil)	<b>6,000</b>	<b>-</b>
	<b><u>6,000</u></b>	<b><u>-</u></b>

### **12 Finance lease receivables**

	Year in which receipt is expected			
	Within 1	Between	After	
	year	1 and 5	5 years	Total
	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>
<b><u>2007</u></b>				
Future minimum lease payments	9,194	-	-	9,194
Unearned finance income	(359)	-	-	(359)
Other balances	(32)	-	-	(32)
Net carrying value	<b><u>8,803</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>8,803</u></b>
<b><u>2006</u></b>				
Future minimum lease payments	10,037	57	-	10,094
Unearned finance income	(403)	4	-	(399)
Net carrying value	<b><u>9,634</u></b>	<b><u>61</u></b>	<b><u>-</u></b>	<b><u>9,695</u></b>

The Company entered into new finance lease agreements totalling £10,888,000 (2006 £15,054,000) during the year and the portfolio is due to mature fully within 1 year

The average effective interest rate in relation to finance lease agreements approximates 7.5% (2006 6.7%)

The fair value of finance lease receivables is considered not to be materially different to the carrying amounts in the balance sheet

There were no contingent rentals recognised as income in the year

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2007**

### **13 Operating lease arrangements**

At the balance sheet date, the Company had contracted with customers for the following future minimum lease payments under non-cancellable operating leases

	Year in which receipt is expected				Total £'000
	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	After 5 years £'000	
2007	<u>65,547</u>	<u>40,798</u>	<u>22,175</u>	<u>34</u>	<u>128,554</u>
2006	<u>56,261</u>	<u>34,062</u>	<u>15,663</u>	<u>-</u>	<u>105,986</u>

Nature of operating lease assets in the balance sheet

	2007 £'000	2006 £'000
Cars and light commercial vehicles	<u>227,339</u>	<u>218,843</u>
	<u>227,339</u>	<u>218,843</u>

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2007**

### **14 Property, plant and equipment**

Assets held for  
use in operating  
operating  
leases  
£'000

#### **Cost**

1 January 2007	313,691
Additions	108,549
Assets held for sale	(24,432)
Disposals	(84,620)
31 December 2007	<u>313,188</u>

#### **Accumulated depreciation and impairment**

1 January 2007	(94,848)
Depreciation charge	(51,546)
Assets held for sale	12,772
Disposals	47,773
31 December 2007	<u>(85,849)</u>

#### **Cost**

1 January 2006	318,065
Additions	86,350
Assets held for sale	(26,691)
Disposals	(64,033)
31 December 2006	<u>313,691</u>

#### **Accumulated depreciation and impairment**

1 January 2006	(90,770)
Depreciation charge	(54,879)
Assets held for sale	12,885
Disposals	37,916
31 December 2006	<u>(94,848)</u>

#### **Net book value**

31 December 2007	<u>227,339</u>
31 December 2006	<u>218,843</u>

#### **Security**

No property, plant and equipment has been pledged as security for liabilities of the Company

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2007**

### **15 Deferred taxation**

Provision for deferred taxation has been made as follows

	<b>Accelerated capital allowances £'000</b>
At 1 January 2006	(13,679)
Charge to income statement	(572)
At 31 December 2006	<u>(14,251)</u>
At 1 January 2007	(14,251)
Charge to income statement	(607)
At 31 December 2007	<u><u>(14,858)</u></u>

### **16 Trade and other receivables**

	<b>2007 £'000</b>	<b>2006 £'000</b>
Other receivables	<u>2</u>	<u>179</u>
	<u><u>2</u></u>	<u><u>179</u></u>

### **17 Assets held for sale**

	<b>2007 £'000</b>	<b>2006 £'000</b>
Vehicles held in stock awaiting resale	<u>11,660</u>	<u>13,806</u>
	<u><u>11,660</u></u>	<u><u>13,806</u></u>

The vehicles held in stock are awaiting re-sale are vehicles which have been returned from being leased to customers and are not being re-leased. The Company is actively arranging for their sale.

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2007**

### **18 Amounts owed to group undertakings**

	<b>2007</b>	2006
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
<b>Current liabilities</b>		
Amounts repayable on demand	(220,276)	(210,424)
Group Relief	<b>8,268</b>	7,618
	<b><u>(212,008)</u></b>	<b><u>(202,806)</u></b>

The average effective interest rate over this loan is 5% (2006 5%)

The fair value of amounts owed to group undertakings is considered not to be materially different to the carrying amounts in the balance sheet

### **19 Trade and other payables**

	<b>2007</b>	2006
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
<b>Current liabilities</b>		
Trade payables	-	(977)
Accruals and deferred income	(16,373)	(15,615)
	<b><u>(16,373)</u></b>	<b><u>(16,592)</u></b>

### **20 Share capital**

	<b>2007</b>	2006
	<b><u>£</u></b>	<b><u>£</u></b>
<b>Authorised:</b>		
100 (2006 100) ordinary shares of £1 each	100	100
	<b><u>100</u></b>	<b><u>100</u></b>
<b>Allotted, called up and fully paid:</b>		
100 (2006 100) ordinary shares of £1 each	100	100
	<b><u>100</u></b>	<b><u>100</u></b>

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

#### 21 Reserves

	<b>Retained earnings <u>£'000</u></b>
At 1 January 2006	11,063
Loss for the year	(2,189)
At 31 December 2006	<u>8,874</u>
At 1 January 2007	8,874
Profit for the year	1,691
Dividends	(6,000)
At 31 December 2007	<u>4,565</u>

#### 22 Financial instruments and risk management

##### Capital risk management

The Company considers its capital to consist of equity attributable to the equity holders of the Company, comprising issued share capital, reserves and retained earnings as disclosed in notes 20 and 21. The Company is a member of the Royal Bank of Scotland group of companies which has regulatory disciplines over the use of its capital. The Company operates controls and policies put in place by the group to ensure that the Company can continue as a going concern and to ensure that the group complies with these regulatory disciplines.

##### Accounting Policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3.



## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

#### 22 Financial instruments and risk management (continued)

##### Categories of financial instruments

The carrying value of each category of financial instruments are disclosed in the following table

	2007 <u>£'000</u>	2006 <u>£'000</u>
Financial assets		
Loans and receivables	8,803	9,695
Non financial assets	<u>239,001</u>	<u>232,828</u>
	<u>247,804</u>	<u>242,523</u>
Financial liabilities		
Amortised cost	212,008	203,783
Non financial liabilities	<u>31,231</u>	<u>29,866</u>
	<u>243,239</u>	<u>233,649</u>

##### Risk management

The Company uses a comprehensive framework for managing risks established by the Lombard group of companies and the Royal Bank of Scotland group of companies

The risks associated with the Company's businesses are as follows

##### Interest rate risk and sensitivity analysis

Structural interest rate risk arises where assets and liabilities have different repricing maturities

Finance lease receivables may be based on fixed and/or floating interest rates. These are funded primarily through balances owed to group undertakings which are due primarily on demand and on a variable interest rate basis. The repricing maturity profile of the financial assets of the Company may be different to that of the associated borrowings and hence gives potential exposure to interest rate risk.

The matching of the repricing maturity characteristics of the Company's assets and liabilities is achieved through hedges transacted within another group company. This results in the Company having exposure to interest rate risk, though this would be offset elsewhere within the group.

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year.

If interest rates had been 0.5% higher and all other variables were held constant, the Company's profit for the year would have decreased by £1,060,000 (2006: £1,014,000). This is mainly due to the Company's exposure to interest rates on its variable rate borrowings. There would be no other impact on equity.

# **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** for the year ended 31 December 2007

### **22 Financial instruments and risk management (continued)**

#### **Currency risk**

The Company has no currency risk as all transactions and balances are denominated in Sterling

#### **Credit risk**

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company

#### Analysis of credit quality by credit rating

The following tables provide an analysis of the credit quality of the Company's financial assets at the balance sheet date

	Analysis of credit quality by quality grade			Accruing past due	Non accrual	Less Impair- ment provision	Total
	AQ1 to 3	AQ4	AQ5				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2007</b>							
Finance lease receivables	<b>8,803</b>	-	-	-	-	-	<b>8,803</b>
<b>2006</b>							
Finance lease receivables	<b>9,695</b>	-	-	-	-	-	<b>9,695</b>

The analysis of credit quality by quality grade represents the maximum exposure to credit risk excluding past due and non accrual Assets are graded according to the following

Asset quality grade	probability of default (PD)
AQ1	<=0 2%
AQ2	>0 2% and <=0 6%
AQ3	>0 6% and <=1 5%
AQ4	>1 5% and <=5%
AQ5	>5%

The Company has no significant credit risk as all loans and receivables are secured on assets

#### **Liquidity risk**

Liquidity risk arises where assets and liabilities have different contractual maturities The Company manages liquidity risk through applying the established framework put in place within the group

The maturity analysis of financial liabilities is disclosed in notes 18 and 19

The Company has no significant liquidity risk as it has access to financing facilities and support provided by fellow group companies

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

#### 22 Financial instruments and risk management (continued)

##### Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The Company manages this risk, in line with the RBS group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

#### 23 Contingent liabilities

The Royal Bank of Scotland group has agreed to compensate UK members for any adjustments in respect of UK UK Transfer Pricing that may arise under paragraph 1A of Schedule 28 AA, Income and Corporation Taxes Act 1988.

#### 24 Post balance sheet events

There have been no significant events between the year end and the approval of these financial statements which would require a change to the disclosures in the accounts.

#### 25 Related parties

The Company's immediate parent and ultimate controlling party is described in note 26.

The table below details balances and transactions with group undertakings.

	Opening balance <u>£'000</u>	Net (receipts) / payments <u>£'000</u>	Net interest (paid) / received <u>£'000</u>	Closing balance <u>£'000</u>
Banking members of the group	-	9,433	(9,433)	-
Other, non-banking members of the group				
Other RBS Group undertakings	(202,806)	(9,202)	-	(212,008)
<b>Total</b>	<u>(202,806)</u>	<u>231</u>	<u>(9,433)</u>	<u>(212,008)</u>

## **LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007**

#### **25 Related parties (continued)**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

#### **Other related party transactions**

Expenses of £6,850,000 (2006: £7,076,000) were paid by other members of the group and then recharged to the Company by way of management charges.

No emoluments were paid to any director by the Company during the year (2006: £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2006: none).

#### **26 Parent companies**

The Company's immediate parent company is Lombard North Central PLC.

The Company's ultimate holding company, ultimate controlling party, and the parent of the largest group into which the Company is consolidated is The Royal Bank of Scotland Group plc, which is incorporated in Great Britain and registered in Scotland. Copies of the financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

The smallest subgroup into which the Company is consolidated has as its parent company The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.