

**Company Registered No: 01919512**

**LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**Group Secretariat  
The Royal Bank of Scotland Group plc  
PO Box 1000  
Gogarburn  
Edinburgh  
EH12 1HQ**

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12/08/2011  
COMPANIES HOUSE

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2010**

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**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**

**A D Baldock  
A D Barnard  
S D Recaldin**

**SECRETARY:**

**C J Whittaker**

**REGISTERED OFFICE.**

**3 Princess Way  
Redhill  
Surrey  
RH1 1NP**

**PRINCIPAL PLACE OF BUSINESS**

**7 – 10 Brindleyplace  
Birmingham  
B1 2TZ**

**AUDITOR:**

**Deloitte LLP  
Birmingham**

**Registered in England and Wales**

**DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2010.

**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 website at rbs.com

**Review of the year*****Business review***

The directors are satisfied with the company's performance in the year. The company will be guided by its shareholders in seeking further opportunities for growth. Post balance sheet events are described in note 24 to the financial statements.

***Financial performance***

The company's financial performance is presented in the statement of comprehensive income. No dividend was paid during the year (2009: £nil)

At the end of the year, the balance sheet showed total assets of £173,009,000 (2009: £203,042,000), including income-generating assets comprising finance lease receivables £11,995,000 (2009: £12,985,000) and assets held for use in operating leases £147,170,000 (2009: £169,929,000) together representing a reduction of 13%. Total equity was £6,116,000 (2009: £1,533,000).

***Principal risks and uncertainties***

The company is funded by facilities from other members of the Royal Bank of Scotland Group.

The company seeks to minimise its exposure to external financial risks. Further information on financial risk management policies and exposures is disclosed in note 19. It also has exposure to asset risk on the residual value of property, plant and equipment.

***Going concern***

The directors, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

**DIRECTORS' REPORT (continued)****DIRECTORS AND SECRETARY**

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 2

From 1 January 2010 to date the following changes have taken place

	<b>Appointed</b>	<b>Resigned</b>
<b>Directors</b>		
N Kapur		1 February 2010
A D Barnard	1 February 2010	
S Houlston		7 April 2011
S D Recalدين	7 April 2011	

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss for the financial year of the company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, and
- make an assessment of the company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**DIRECTORS' REPORT (continued)**

**DISCLOSURE OF INFORMATION TO AUDITOR**

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

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the company's auditor is aware of that information

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

**POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

The company follows the policy and practice on payment of trade creditors determined by The Royal Bank of Scotland Group plc, which is committed to maintaining a sound commercial relationship with its suppliers. Consequently, the policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay them 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

**AUDITOR**

Deloitte LLP has expressed its willingness to continue in office as auditor

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



S D Recaldin  
Director

Date 5<sup>th</sup> AUGUST 2011

## **INDEPENDENT AUDITOR'S 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 2010 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

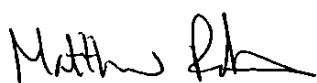
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD VEHICLE  
MANAGEMENT (1) LIMITED (continued)**

**Matters on which we are required to report by exception**

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

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



Matthew Perkins (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Birmingham, United Kingdom

9<sup>th</sup> August 2011



**LOMBARD VEHICLE MANAGEMENT (1) LIMITED****01919512****STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2010**

<b>Continuing operations</b>	<b>Notes</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Revenue	3	57,513	70,041
Depreciation on property, plant and equipment	9	(35,817)	(36,279)
Other operating income	4	5,042	4,509
Other operating expenses	5	(16,263)	(15,025)
<b>Operating profit</b>		<b>10,475</b>	<b>23,246</b>
Finance costs	6	(4,698)	(8,740)
<b>Profit before tax</b>	7	<b>5,777</b>	<b>14,506</b>
<b>Tax charge</b>	8	<b>(1,194)</b>	<b>(4,256)</b>
<b>Profit and total comprehensive income for the year</b>		<b>4,583</b>	<b>10,250</b>

The accompanying notes form an integral part of these financial statements

**LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

01919512

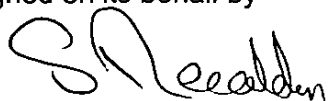
**BALANCE SHEET**

as at 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Non-current assets</b>			
Property, plant and equipment	9	147,170	169,929
Finance lease receivables	10	3,328	3,256
		<u>150,498</u>	<u>173,185</u>
<b>Current assets</b>			
Finance lease receivables	10	8,667	9,729
Trade and other receivables	12	9,859	7,315
Assets held for sale	13	3,750	7,518
Prepayments, accrued income and other assets	14	235	5,295
		<u>22,511</u>	<u>29,857</u>
<b>Total assets</b>		<u>173,009</u>	<u>203,042</u>
<b>Current liabilities</b>			
Borrowings from group undertakings	15	126,820	162,014
Trade and other payables	16	23,379	25,005
Accruals, deferred income and other liabilities	17	5,263	1,768
		<u>155,462</u>	<u>188,787</u>
<b>Non-current liabilities</b>			
Deferred tax liability	18	11,431	12,722
<b>Total liabilities</b>		<u>166,893</u>	<u>201,509</u>
<b>Equity</b>			
Share capital	21	-	-
Retained earnings		6,116	1,533
<b>Total equity</b>		<u>6,116</u>	<u>1,533</u>
<b>Total liabilities and equity</b>		<u>173,009</u>	<u>203,042</u>

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors on 5<sup>th</sup> August 2011  
and signed on its behalf by



S D Recaldin  
Director

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2010

	Share capital £'000	Retained earnings £'000	Total £'000
<b>At 1 January 2009</b>	-	(8,717)	(8,717)
Profit for the year	-	10,250	10,250
<b>At 31 December 2009</b>	-	1,533	1,533
Profit for the year	-	4,583	4,583
<b>At 31 December 2010</b>	-	<b>6,116</b>	<b>6,116</b>

Total comprehensive income for the year of £4,583,000 (2009 £10,250,000) was wholly attributable to the owners of the company

The accompanying notes form an integral part of these financial statements

**CASH FLOW STATEMENT**

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Operating activities</b>			
Profit for the year before tax		5,777	14,506
<b>Adjustments for:</b>			
Depreciation	9	35,817	36,279
Loss/(gain) on disposal of property, plant and equipment	7	238	(564)
Finance costs	6	4,698	8,740
<b>Operating cash flows before movements in working capital</b>		<b>46,530</b>	<b>58,961</b>
Decrease/(increase) in finance lease receivables		1,044	(1,576)
(Increase)/decrease in trade and other receivables		(2,544)	4,481
Decrease in prepayments, accrued income and other assets		515	673
Decrease in trade and other payables		(1,626)	(3,269)
Decrease in amounts owed to group undertakings		(35,194)	(52,224)
Increase/(decrease) in accruals, deferred income and other liabilities		26	(1,756)
<b>Net cash from operating activities before tax</b>		<b>8,751</b>	<b>5,290</b>
<b>Tax received</b>		<b>5,529</b>	<b>3,565</b>
<b>Net cash flows from operating activities</b>		<b>14,280</b>	<b>8,855</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		46,190	47,857
Purchases of property, plant and equipment		(55,772)	(47,972)
<b>Net cash flows used in investing activities</b>		<b>(9,582)</b>	<b>(115)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(4,698)	(8,740)
<b>Net cash flows used in financing activities</b>		<b>(4,698)</b>	<b>(8,740)</b>
<b>Net increase in cash and cash equivalents</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>		<b>-</b>	<b>-</b>

The accompanying notes form an integral part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies****a) Presentation of accounts**

The accounts are prepared on a going concern basis and 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 as adopted by the European Union (EU) (together IFRS)

The company is incorporated in the UK and registered in England and Wales

The accounts are prepared on the historical cost basis except as noted in the following accounting policies

The company's accounts are presented in accordance with the Companies Act 2006

**Adoption of new and revised standards**

There are a number of changes to IFRS that were effective from 1 January 2010. They have had no material effect on the company's financial statements for the year ended 31 December 2010.

**b) Revenue recognition**

Revenue from finance leases and operating leases is recognised in accordance with the company's policies on leases (see below). Revenue arises in the United Kingdom from continuing activities.

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

Rental income from operating leases is credited to the income statement on a receivable basis over the term of the lease.

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value through profit or loss are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability.

**c) 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****1. Accounting policies (continued)****d) Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of property, plant and equipment over their estimated useful lives.

The depreciable amount is the cost of an asset less its residual value. Estimated useful lives are as follows:

Assets held for use in operating leases – over the term of the lease

**e) Impairment of property, plant and equipment**

At each reporting date, the company assesses whether there is any indication that its property, plant and equipment are impaired. If any such indication exists, the company estimates the recoverable amount of the asset and the impairment loss, if any.

**f) 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.

Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives (see accounting policy d).

**g) Financial assets**

On initial recognition, financial assets are classified into held-to-maturity investments, loans and receivables, held-for-trading, designated as at fair value through profit or loss, or available-for-sale financial assets.

***Loans and receivables***

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. Accounting policies (continued)

## h) Impairment of financial assets

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

## i) Financial liabilities

On initial recognition financial liabilities are classified into held-for-trading, designated as at fair value through profit or loss, or amortised cost.

**Amortised cost**

Other than derivatives, which are recognised and measured at fair value, all other financial liabilities are measured at amortised cost using the effective interest method.

## j) Derecognition

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition.

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires.

## k) Accounting developments

The International Accounting Standards Board (IASB) issued '*Improvements to IFRS*' in May 2010 implementing minor changes to IFRS, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording. The revisions are effective for annual periods beginning on or after 1 July 2010 and are not expected to have a material effect on the company.

The IASB issued IFRS 9 'Financial Instruments' in October 2010 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments Recognition and Measurement' in respect of financial assets and liabilities. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost while keeping categories for liabilities broadly the same. Only financial assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value with changes in value generally taken to profit or loss. The IASB will add impairment and hedging requirements to the standard before it becomes effective for annual periods beginning on or after 1 January 2013, early application is permitted.

This standard makes major changes to the framework for the classification and measurement of financial assets and will have an effect on the company's Financial Statements. The company is assessing the effect which also depends on the outcome of the other phases of IASB's IAS 39 replacement project.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. Accounting policies (continued)

## k) Accounting Developments (continued)

There are a number of other changes to IFRS that were in issue but not yet effective. The adoption of these changes in future periods is not expected to have a material effect on the company's accounting policies or financial statements.

## 2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results.

## Loan impairment provisions

The company's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

## Impairment of unguaranteed residual values

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.

## 3. Revenue

	2010 £'000	2009 £'000
Finance lease income	932	897
Operating lease rental income	56,313	68,937
Other revenue	268	207
	<b>57,513</b>	<b>70,041</b>

There were no contingent rentals recognised in the year (2009: none)



NOTES TO THE FINANCIAL STATEMENTS (continued)

**4 Operating income**

	2010 £'000	2009 £'000
Service rental income	4,892	4,304
Other income	150	205
	<u>5,042</u>	<u>4,509</u>

**5. Operating expenses**

	2010 £'000	2009 £'000
Commission payable	1,277	2,417
Bad debt charge	1,212	2,876
Management fees	7,155	5,819
Operating lease cost	6,614	3,908
Auditor's remuneration – audit services	5	5
	<u>16,263</u>	<u>15,025</u>

**Staff costs, number of employees and directors' emoluments**

All staff and directors were employed by RBS, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The company has no employees and pays a management charge for services provided by other group companies. The directors of the company do not receive remuneration for specific services provided to the company.

**Management recharge**

Management charges relate to the company's share of group resources such as the use of IT platforms, staff and a share of central resources. These are re-charged on an annual basis by Lombard Vehicle Management Limited.

**6. Finance costs**

	2010 £'000	2009 £'000
Interest on loans from group undertakings	<u>4,698</u>	<u>8,740</u>

**7. Profit before tax**

Profit before tax is stated after charging

	2010 £'000	2009 £'000
Loss/(profit) on disposal of property, plant and equipment	<u>238</u>	<u>(564)</u>
Auditor's remuneration – audit services	<u>5</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Tax

	2010 £'000	2009 £'000
Current taxation		
UK corporation tax charge for the year	2,476	2,739
Under provision in respect of prior periods	9	20
	<u>2,485</u>	<u>2,759</u>
Deferred taxation		
(Credit)/charge for the year	(1,282)	1,323
(Over)/under provision in respect of prior periods	(9)	174
	<u>(1,291)</u>	<u>1,497</u>
Tax charge for the year	<u>1,194</u>	<u>4,256</u>

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2009 standard tax rate 28%) as follows

	2010 £'000	2009 £'000
Expected tax charge	1,617	4,062
Reduction in deferred tax following change in rate of UK corporation tax	(423)	-
Adjustments in respect of prior periods	-	194
Actual tax charge for the year	<u>1,194</u>	<u>4,256</u>

In the Budget on 22 June 2010, the UK Government proposed, amongst other things, to reduce the rate of Corporation Tax in four annual decrements of 1% with effect from 1 April 2011. The first decrement from 28% to 27% was enacted in the Finance (No 2) Act 2010 on 27 July 2010. In conjunction, reductions to the rate of capital allowances have also been proposed, to take effect from 1 April 2012. Together as a result of these changes, existing temporary differences may unwind in periods subject to the reduced tax rate giving rise to a reduction of the deferred tax liability. Accordingly, the closing deferred tax assets and liabilities have been calculated at the rate of 27%. An additional 1% decrement, also effective from 1 April 2011, was announced by the UK Government in the Budget on 23 March 2011. The impact of this further change is estimated as giving rise to a tax credit of £423,000, which will be recognised in the accounts for 2011.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Property, plant and equipment

	Assets held for use in operating leases £'000
<b>2010</b>	
<b>Cost</b>	
1 January 2010	240,984
Additions	55,772
Reclassifications	(54)
Assets held for sale	(7,488)
Disposals	(74,583)
31 December 2010	<u>214,631</u>
<b>Accumulated depreciation and impairment</b>	
1 January 2010	71,055
Depreciation charge for the year	35,817
Assets held for sale	(3,738)
Disposals	(35,673)
31 December 2010	<u>67,461</u>
<b>2009</b>	
<b>Cost</b>	
1 January 2009	294,889
Additions	47,972
Assets held for sale	(13,985)
Disposals	(87,892)
31 December 2009	<u>240,984</u>
<b>Accumulated depreciation and impairment</b>	
1 January 2009	89,760
Depreciation charge for the year	36,279
Assets held for sale	(6,467)
Disposals	(48,517)
31 December 2009	<u>71,055</u>
<b>Net book value</b>	
31 December 2010	<u>147,170</u>
31 December 2009	<u>169,929</u>

During the year some lease agreements previously classified as operating leases were reclassified as finance leases

**Security**

No property, plant and equipment has been pledged as security for liabilities of the company (2009 none)

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Finance lease receivables

	Year in which receipt is expected			Total £'000
	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	
<b>2010</b>				
Future minimum lease payments	8,997	3,454	-	12,451
Unguaranteed residual values	32	439	-	471
Unearned finance income	(421)	(565)	-	(986)
Other	82	-	-	82
Present value of minimum lease payments receivable	8,690	3,328	-	12,018
Impairment provisions	(23)	-	-	(23)
Carrying value	8,667	3,328	-	11,995
<b>2009</b>				
Future minimum lease payments	10,260	3,492	-	13,752
Unguaranteed residual values	18	429	-	447
Unearned finance income	(482)	(665)	-	(1,147)
Other	(41)	-	-	(41)
Present value of minimum lease payments receivable	9,755	3,256	-	13,011
Impairment provisions	(26)	-	-	(26)
Carrying value	9,729	3,256	-	12,985

The company entered into new finance lease agreements totalling £10,051,000 (2009 £10,395,000) during the year and the portfolio is due to mature fully within 5 years

The average effective interest rate in relation to finance lease agreements approximates 2% (2009 4%)

11. Operating lease arrangements

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

	Year in which receipt is expected			Total £'000
	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	
<b>2010</b>	<b>44,835</b>	<b>44,332</b>	<b>-</b>	<b>89,167</b>
<b>2009</b>	<b>51,124</b>	<b>40,903</b>	<b>-</b>	<b>92,027</b>
<b>Nature of operating lease assets in the balance sheet:</b>			<b>2010 £'000</b>	<b>2009 £'000</b>
Cars and light commercial vehicles			<b>147,171</b>	<b>169,929</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**12. Trade and other receivables**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Trade receivables	<b>8,169</b>	5,927
Other receivables	<b>1,690</b>	1,388
	<b>9,859</b>	<b>7,315</b>

**13. Assets held for sale**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Stock awaiting sale	<b>3,750</b>	<b>7,518</b>

Stock comprises vehicles which have been returned from being leased to customers and not being re-leased. The company is actively arranging for sale.

**14. Prepayments, accrued income and other assets**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Prepayments	<b>6</b>	18
Accrued income	<b>229</b>	732
Group relief receivable	<b>-</b>	4,545
	<b>235</b>	<b>5,295</b>

**15. Borrowings**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Loans from group undertakings	<b>126,820</b>	<b>162,014</b>

The average effective interest rate over loans from group undertakings approximates 3% (2009 2%).

**16. Trade and other payables**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	<b>23,363</b>	24,843
Other payables	<b>16</b>	162
	<b>23,379</b>	<b>25,005</b>

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Accruals, deferred income and other liabilities

	2010	2009
	£'000	£'000
Accruals	1,794	1,768
Corporation tax payable	3,469	-
	<u>5,263</u>	<u>1,768</u>

18. Deferred tax

The following are the major tax liabilities recognised by the company and the movements thereon

	Capital allowances £'000
At 1 January 2009	(11,225)
Charge to income	(1,497)
At 31 December 2009	<u>(12,722)</u>
Credit to income	1,291
At 31 December 2010	<u>(11,431)</u>

The Finance Act 2010 has reduced the corporation tax rate from 28% to 27% with effect from 1 April 2011. As a consequence the closing deferred tax liabilities have been recognised at an effective rate of 27.0%

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 19. Financial instruments and risk management

## (i) Categories of Financial instruments

The following tables analyse the company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 "Financial Instruments, Recognition and Measurement". Assets and liabilities outside the scope of IAS 39 are shown separately.

	Loans and receivables £'000	At amortised cost £'000	Finance leases £'000	Non financial assets/ liabilities £'000	Total £'000
<b>2010</b>					
<b>Assets</b>					
Property, plant and equipment	-	-	-	147,170	147,170
Finance lease receivables	-	-	11,995	-	11,995
Trade and other receivables	8,169	-	-	1,690	9,859
Assets held for sale	-	-	-	3,750	3,750
Prepayments, accrued income and other assets	-	-	-	235	235
	<b>8,169</b>	<b>-</b>	<b>11,995</b>	<b>152,845</b>	<b>173,009</b>
<b>Liabilities</b>					
Borrowings from group undertakings	-	126,820	-	-	126,820
Trade and other payables	-	23,363	-	16	23,379
Accruals, deferred income and other liabilities	-	-	-	5,263	5,263
Deferred tax liability	-	-	-	11,431	11,431
	<b>-</b>	<b>150,183</b>	<b>-</b>	<b>16,710</b>	<b>166,893</b>
<b>Equity</b>					<b>6,116</b>
					<b>173,009</b>
<b>2009</b>					
<b>Assets</b>					
Property, plant and equipment	-	-	-	169,929	169,929
Finance lease receivables	-	-	12,985	-	12,985
Loans and receivables	5,927	-	-	1,388	7,315
Assets held for sale	-	-	-	7,518	7,518
Prepayments, accrued income and other assets	4,545	-	-	750	5,295
	<b>10,472</b>	<b>-</b>	<b>12,985</b>	<b>179,585</b>	<b>203,042</b>
<b>Liabilities</b>					
Borrowings from group undertakings	-	162,014	-	-	162,014
Trade and other payables	-	24,843	-	162	25,005
Accruals, deferred income and other liabilities	-	-	-	1,768	1,768
Deferred tax liability	-	-	-	12,722	12,722
	<b>-</b>	<b>186,857</b>	<b>-</b>	<b>14,652</b>	<b>201,509</b>
<b>Equity</b>					<b>1,533</b>
					<b>203,042</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)****19. Financial instruments and risk management (continued)****(i) Categories of Financial instruments(continued)**

The fair value of financial instruments that are not carried at fair value on the balance sheet is considered not to be materially different to the carrying amounts

**(ii) Financial risk management**

The principal risks associated with the company's businesses are as follows

**Interest rate risk**

Structural interest rate risk arises where assets and liabilities have different re-pricing maturities

The company manages interest rate risk by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches

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

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 before tax for the year would have decreased by £639,000 (2009 profit before tax for the year would have decreased by £810,000). 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.

**Currency risk**

The company has no currency risk as all transactions and balances are denominated in sterling.

**Credit risk**

The objective of credit risk management is to enable the company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the company.

The key principles of the group's Credit Risk Management Framework are set out below

- Approval of all credit exposure is granted prior to any advance or extension of credit



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 19. Financial instruments and risk management (continued)

## (ii) Financial risk management (continued)

## Credit risk (continued)

- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. This includes a review of, amongst other things, the purpose of credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return.
- Credit risk authority is dictated by the Board and specifically granted in writing to all individuals involved in the granting of credit approval. In exercising credit authority, the individuals act independently of any related business revenue origination.
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment.

## Credit quality

The following table provides an analysis of the credit quality of third party financial assets and commitments based on the probability of default

	Finance lease receivables £'000	Loans and receivables £'000	Total £'000
<b>2010</b>			
Probability of default			
0%-1%	11,552	-	11,552
1%-5%	466	-	466
>5%	-	-	-
Accruing past due	-	7,855	7,855
Non -Accrual	-	2,291	2,291
Impairment	(23)	(1,977)	(2,000)
	<u>11,995</u>	<u>8,169</u>	<u>20,164</u>
<b>2009</b>			
Probability of default			
0%-1%	8,246	4,545	12,791
1%-5%	4,765	-	4,765
>5%	-	-	-
Accruing past due	-	6,366	6,366
Non -Accrual	-	2,105	2,105
Impairment	(26)	(2,546)	(2,572)
	<u>12,985</u>	<u>10,472</u>	<u>23,457</u>

Probability of default is the likelihood that a customer will fail to make full and final repayment of credit obligations over a one year time horizon

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial instruments and risk management (continued)

Credit quality (continued)

The following assets were past due at the balance sheet date but not considered impaired

	1 – 29 days £'000	30 – 59 days £'000	60 – 89 days £'000	More than 90 days £'000	Total £'000
<b>2010</b>					
Trade and other receivables	7,376	339	140	-	7,855
<b>2009</b>					
Trade and other receivables	4,296	763	383	925	6,366

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

Liquidity risk

The company has no material liquidity risk as it has access to group funding

Financial Liabilities

All financial liabilities are due within 30 days of the balance sheet date

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Financial assets - impairments

The following table shows the movement in the provision for impairment of finance lease, trade and other receivables

	2010 £'000	2009 £'000
<b>At 1 January</b>	<b>2,572</b>	<b>2,718</b>
Charge to income	1,212	2,876
Amounts written off	(1,784)	(3,022)
<b>At 31 December</b>	<b>2,000</b>	<b>2,572</b>

The following table shows the analysis of impaired individually assessed financial assets

	2010			2009		
	Cost £'000	Provision £'000	Net book value £'000	Cost £'000	Provision £'000	Net book value £'000
Finance lease receivables	1	(1)	-	1	(1)	-
Trade and other receivables	2,291	(1,977)	314	3,171	(2,546)	625

21. Share capital

	2010 £	2009 £
Authorised: 100 ordinary shares of £1	100	100
Allotted, called up and fully paid Equity shares 100 ordinary shares of £1	100	100

The company has one class of ordinary shares which carry no right to fixed income

22. Capital resources

The company's capital consists of equity comprising issued share capital and retained earnings. The company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the company is governed by the group's policy which is to maintain a strong capital base. It is not separately regulated. The group has complied with the FSA's capital requirements throughout the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

**23. Related parties**

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of the company.

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. Its immediate parent company is Lombard North Central PLC which is incorporated in Great Britain and registered in England and Wales.

As at 31 December 2010, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

**Related party transactions with UK Government bodies**

The company has transactions with UK Government bodies on an arms' length basis. The volume and diversity of such transactions are such that disclosure of their amounts in the period is impractical.

Balances with the UK Government and affiliated bodies at the balance sheet date were

	2010 £'000	2009 £'000
Central Government	1,288	656
Local Government	202	512
	<u>1,490</u>	<u>1,168</u>

**Related party transactions with group undertakings**

The tables below detail transactions and balances with group undertakings.

	2010 £'000	2009 £'000
<b>Net interest paid</b>		
Fellow subsidiaries	<u>4,698</u>	<u>8,740</u>
<b>Net amounts payable</b>		
Fellow subsidiaries	<u>126,820</u>	<u>162,014</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)****24. Post balance sheet events**

On 16 June 2011, the company, together with other members of the RBSG group, became party to a capital support deed (CSD). Under the terms of the CSD, the company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the company's available resources). The CSD also provides that, in certain circumstances, funding received by the company from other parties to the CSD becomes immediately repayable, such repayment being limited to the company's available resources. There are no other events since the balance sheet date that require modifications to or disclosure in the financial statements.