

**Company Registration No: 01919512**

**LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 December 2008**

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

**WEDNESDAY**



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**28/10/2009**

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**COMPANIES HOUSE**

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

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**LOMBARD VEHICLE MANAGEMENT (1) LIMITED**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:** A D Baldock  
S Houlston  
N Kapur

**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 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 2008.

### **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](http://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 £nil was paid during the year (2007: £6,000,000).

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 £224,464,000 (2007: £247,804,000) and an equity shareholders' deficit of £8,717,000 (2007: equity of £4,565,000).

#### **Other matters**

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 21. It also has exposure to asset risk on the residual value of property, plant and equipment.

The directors, having made such enquiries as they considered appropriate, including regarding the continuing availability of sufficient resources from the Group, have prepared the financial statements on a going concern basis. They considered the financial statements of The Royal Bank of Scotland Group plc for the half year ended 30 June 2009, approved on 6 August 2009, which were prepared on a going concern basis.

Although the Company traded at a loss it is expected to trade profitably in the future.

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

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

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

As at 31 December 2008 the Company had an equity shareholders' deficit of £8,717,000. The Company receives financial and other support from its immediate parent undertaking, Lombard North Central PLC. The directors of Lombard North Central PLC have confirmed that this support will continue to be made available for the foreseeable future.

#### **DIRECTORS AND SECRETARY**

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

From 1 January 2008 to date the following changes have taken place:

<b>Directors</b>	<b>Appointed</b>	<b>Resigned</b>
S N Parsonson		21 April 2008
P A Lynam		8 August 2008
A D Baldock	8 August 2008	
R A Bailey		27 February 2009
S Houlston	30 March 2009	

#### **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 enable them 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.

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

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

#### **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
- (b) the director has taken all the steps that he ought to have taken to make himself aware of any relevant 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**

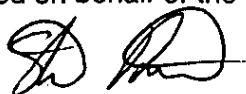
The Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc ('RBSG'), as outlined below.

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 LLP have expressed their willingness to continue in office as auditors.

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



S Houlston  
Director

Date: 27<sup>th</sup> October 2009.

## **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 2008 which comprise the income statement, the statement of changes in equity, the balance sheet, the cash flow statement and the related notes 1 to 24. 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.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

**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 2008 and of its loss 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 LLP*

**Deloitte LLP  
Chartered Accountants and Registered Auditors  
Birmingham, United Kingdom  
Date:**

*28 October 2009*



# LOMBARD VEHICLE MANAGEMENT (1) LIMITED

## INCOME STATEMENT

for the year ended 31 December 2008

	Note	2008 <u>£'000</u>	2007 <u>£'000</u>
<b>Continuing operations</b>			
Revenue	4	67,668	74,877
Depreciation on property, plant and equipment	13	(59,916)	(51,546)
Other operating income	5	6,684	6,768
Other operating charges	6	<u>(21,189)</u>	<u>(19,017)</u>
<b>Operating (loss)/profit</b>		<b>(6,753)</b>	<b>11,082</b>
Finance costs	7	<u>(12,763)</u>	<u>(9,433)</u>
<b>(Loss)/profit before tax</b>		<b>(19,516)</b>	<b>1,649</b>
Tax credit	8	<u>6,234</u>	<u>42</u>
<b>(Loss)/profit for the year attributable to the equity holders of the Company</b>	9,20	<b><u>(13,282)</u></b>	<b><u>1,691</u></b>

The notes on pages 11 to 25 form a part of these financial statements.

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

## **STATEMENT OF CHANGES IN EQUITY** **for the year ended 31 December 2008**

	Note	Share capital <u>£'000</u>	Retained earnings <u>£'000</u>	Total equity <u>£'000</u>
At 1 January 2007		-	8,874	8,874
Profit for the year		-	1,691	1,691
Dividends paid	10	-	(6,000)	(6,000)
At 31 December 2007		<u>-</u>	<u>4,565</u>	<u>4,565</u>
At 1 January 2008		-	4,565	4,565
Loss for the year		-	(13,282)	(13,282)
At 31 December 2008		<u>-</u>	<u>(8,717)</u>	<u>(8,717)</u>

The notes on pages 11 to 25 form a part of these financial statements.

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

## **BALANCE SHEET** **at 31 December 2008**

	<b>Note</b>	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
<b>Non-current assets</b>			
Finance lease receivables	11	3,000	-
Property, plant and equipment	13	205,129	227,339
		<u>208,129</u>	<u>227,339</u>
<b>Current assets</b>			
Finance lease receivables	11	8,416	8,803
Trade and other receivables	14	1	2
		<u>8,417</u>	<u>8,805</u>
Assets held for sale	15	7,918	11,660
<b>Total assets</b>		<u>224,464</u>	<u>247,804</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	16	11,225	14,858
<b>Current liabilities</b>			
Amounts owed to group undertakings	17	205,097	212,008
Trade and other payables	18	16,859	16,373
		<u>221,956</u>	<u>228,381</u>
<b>Total liabilities</b>		<u>233,181</u>	<u>243,239</u>
<b>Net assets</b>		<u>(8,717)</u>	<u>4,565</u>
<b>Equity</b>			
Share capital	19	-	-
Reserves	20	(8,717)	4,565
<b>Total (deficit)/equity attributable to the equity holders of the Company</b>		<u>(8,717)</u>	<u>4,565</u>

The financial statements of Lombard Vehicle Management (1) Limited, registered number 01919512 were approved by the board of directors and authorised for issue on 27<sup>th</sup> October 2009  
Signed on behalf of the Board



S Houlston  
Director

The notes on pages 11 to 25 form a part of these financial statements.

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

## **CASH FLOW STATEMENT**

**for the year ended 31 December 2008**

	<b>Note</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
<b>Operating activities</b>			
(Loss)/Profit before tax		<b>(19,516)</b>	1,649
<i>Adjustments for:</i>			
Depreciation on property, plant and equipment	13	<b>59,916</b>	51,546
Loss/(profit) on disposal of property, plant and equipment	9	<b>5,798</b>	(572)
Finance costs	7	<b>12,763</b>	9,433
<b>Operating profit before changes in working capital</b>		<b>58,961</b>	62,056
(Increase)/decrease in finance lease receivables		<b>(1,443)</b>	892
Decrease in trade and other receivables		<b>1</b>	177
(Decrease)/increase in amounts owed to group undertakings		<b>(4,310)</b>	9,852
Increase/(decrease) in trade and other payables		<b>486</b>	(219)
<b>Net cash generated from the operations</b>		<b>53,695</b>	72,758
Interest paid		<b>(12,763)</b>	(9,433)
<b>Net cash from operating activities</b>		<b>40,932</b>	63,325
<b>Investing activities</b>			
Proceeds from disposal of property, plant and equipment		<b>53,643</b>	51,224
Acquisition of property, plant and equipment	13	<b>(94,575)</b>	(108,549)
<b>Net cash used in investing activities</b>		<b>(40,932)</b>	(57,325)
<b>Financing activities</b>			
Dividends paid	10	<b>-</b>	(6,000)
<b>Net cash used in financing activities</b>		<b>-</b>	(6,000)
<b>Net increase in cash and cash equivalents</b>		<b>-</b>	-
Cash and cash equivalents at 1 January		<b>-</b>	-
<b>Cash and cash equivalents at 31 December</b>		<b>-</b>	-

The notes on pages 11 to 25 form a part of these financial statements.

# LOMBARD VEHICLE MANAGEMENT (1) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

### 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 not adopted any additional Standards as none have become effective for this reporting period.

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are: IFRIC 11 *IFRS2 - Group and Treasury Share Transactions*, IFRIC 12 *Service Concession Arrangements* and IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. 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 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*, IFRIC 17 *Distributions of Non-cash Assets to Owners* and IFRIC 18 *Transfers of Assets from Customers*. 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, which should be read in conjunction with the Directors' Report, 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 (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.

#### 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.

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

#### 3 Accounting policies (continued)

##### c. 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

##### d. 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.

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.

##### e. 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.

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

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2008**

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

##### **f. 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.

##### **g. 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.

##### **h. 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.

##### **i. Trade and other payables**

Trade and other payables are measured at fair value.

##### **j. Other operating income**

Other operating income is accounted for on an accruals basis.

##### **k. Other operating charges/credits**

Other operating charges/credits include provisions for bad and doubtful debts and other operating charges/credits. 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.

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

#### 3 Accounting policies (continued)

##### 1. 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

	2008 <u>£'000</u>	2007 <u>£'000</u>
Operating lease income	66,507	73,996
Finance lease income	873	762
Other revenue	288	119
	<u>67,668</u>	<u>74,877</u>

#### 5 Other operating income

	2008 <u>£'000</u>	2007 <u>£'000</u>
Other income	<u>6,684</u>	<u>6,768</u>

#### 6 Other operating charges

	2008 <u>£'000</u>	2007 <u>£'000</u>
Commission payable	2,354	2,195
Bad debt charge	1,011	356
Management fees	7,360	6,853
Audit fees	5	5
Operating lease costs	10,459	9,608
	<u>21,189</u>	<u>19,017</u>

The Company had no employees in the current year (2007: 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.



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

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2008**

### **7 Finance costs**

	<b>2008</b>	<b>2007</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
On loans and payables:		
To group undertakings	<b><u>12,763</u></b>	<b><u>9,433</u></b>

### **8 Tax credit on (loss)/profit before tax**

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

	<b>2008</b>	<b>2007</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Current taxation:		
Income tax credit for the year	<b>1,086</b>	<b>906</b>
Over/(under) provision in respect of prior periods	<b><u>1,515</u></b>	<b><u>(257)</u></b>
Current tax credit for the year	<b>2,601</b>	<b>649</b>
Deferred taxation:		
Credit/(charge) for the year	<b>4,400</b>	<b>(313)</b>
Under provision in respect of prior periods	<b><u>(767)</u></b>	<b><u>(294)</u></b>
	<b>3,633</b>	<b>(607)</b>
Tax credit for the year	<b><u>6,234</u></b>	<b><u>42</u></b>

#### **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 28.5% (2007: 30%) as follows:

	<b>2008</b>	<b>2007</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Expected tax credit/(charge)	<b>5,562</b>	<b>(495)</b>
Capital gains taxed at other rates	<b>2</b>	<b>-</b>
Adjustments in respect of prior periods	<b>748</b>	<b>(551)</b>
Tax rate change	<b>(78)</b>	<b>1,062</b>
Non-taxable items	<b>-</b>	<b>26</b>
Actual tax credit	<b><u>6,234</u></b>	<b><u>42</u></b>

The applicable rate for the year has changed from 30% to 28.5% following a reduction in the rate of UK corporation tax from 30% to 28% on 1 April 2008.

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

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2008**

### **9 Loss for the year**

Loss/(profit) for the year has been arrived at after charging/(crediting):

	<b>2008</b>	<b>2007</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Loss/(profit) on disposal of property, plant and equipment	<b><u>5,798</u></b>	<b><u>(572)</u></b>
Auditors' remuneration:		
Audit services	<b><u>5</u></b>	<b><u>5</u></b>

### **10 Dividends**

	<b>2008</b>	<b>2007</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Final dividend paid £nil per ordinary share (2007: £60,000)	<b><u>-</u></b>	<b><u>6,000</u></b>

### **11 Finance lease receivables**

	Year in which receipt is expected			
	Within 1	Between	After	Total
	year	1 and 5	5 years	
	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>
<b><u>2008</u></b>				
Future minimum lease payments	9,106	3,240	-	12,346
Unguaranteed residual values	-	464	-	464
Unearned finance income	(692)	(704)	-	(1,396)
Other balances	2	-	-	2
Net carrying value	<b><u>8,416</u></b>	<b><u>3,000</u></b>	<b><u>-</u></b>	<b><u>11,416</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>

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

#### 11 Finance lease receivables (continued)

The Company entered into new finance lease agreements totalling £10,705,000 (2007: £10,888,000) during the year and the portfolio is due to mature fully within 4 years.

The average effective interest rate in relation to finance lease agreements approximates 7.5% (2007: 7.5%).

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.

#### 12 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	
2008	<u>64,631</u>	<u>38,562</u>	<u>20,166</u>	<u>-</u>	<u>123,359</u>
2007	<u>65,547</u>	<u>40,798</u>	<u>22,175</u>	<u>34</u>	<u>128,554</u>

Nature of operating lease assets in the balance sheet:

	2008 £'000	2007 £'000
Cars and light commercial vehicles	<u>205,129</u>	<u>227,339</u>

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

#### 13 Property, plant and equipment

Assets held  
for use in  
operating  
leases  
£'000

##### Cost

1 January 2008	313,188
Additions	94,575
Assets held for sale	(15,147)
Reclassification	(1,170)
Disposals	(96,557)
31 December 2008	<u>294,889</u>

##### Accumulated depreciation and impairment

1 January 2008	(85,849)
Depreciation charge	(59,916)
Assets held for sale	7,229
Disposals	48,776
31 December 2008	<u>(89,760)</u>

##### 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>

##### Net book value

31 December 2008	<u>205,129</u>
31 December 2007	<u>227,339</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 2008

#### 13 Property, plant and equipment (continued)

##### Residual value

In accordance with IAS 16 *Property, Plant and Equipment*, the Company regularly reviews the level of residual values and accounts for changes as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

As at 31 December 2008 there had been a significant deterioration in residual values. As a result a further amount of £10,741,000 has been taken as a charge to depreciation in the year then ended in addition to that which has arisen in the normal course of business.

#### 14 Trade and other receivables

	2008 <u>£'000</u>	2007 <u>£'000</u>
Other receivables	<u>1</u>	<u>2</u>

#### 15 Assets held for sale

	2008 <u>£'000</u>	2007 <u>£'000</u>
Vehicles held in stock awaiting resale	<u>7,918</u>	<u>11,660</u>

The vehicles held in stock 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.

#### 16 Deferred taxation

Provision for deferred taxation has been made as follows:

##### Accelerated capital allowances £'000

At 1 January 2007	(14,251)
Charge to income statement	(607)
At 31 December 2007	<u>(14,858)</u>
At 1 January 2008	(14,858)
Charge to income statement	3,633
At 31 December 2008	<u>(11,225)</u>

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

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2008**

### **17 Amounts owed to group undertakings**

	<b>2008</b>	<b>2007</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
<b>Current liabilities</b>		
Amounts repayable on demand	(215,966)	(220,276)
Group Relief	<u>10,869</u>	<u>8,268</u>
	<u><b>(205,097)</b></u>	<u><b>(212,008)</b></u>

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

The group relief balance attracts nil interest. The average effective interest rate over the amounts repayable on demand approximates 5% (2007: 5%).

### **18 Trade and other payables**

	<b>2008</b>	<b>2007</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
<b>Current liabilities</b>		
Trade payables	872	-
Other payables	2,870	-
Accruals and deferred income	<u>13,117</u>	<u>16,373</u>
	<u><b>16,859</b></u>	<u><b>16,373</b></u>

### **19 Share capital**

	<b>2008</b>	<b>2007</b>
	<b><u>£</u></b>	<b><u>£</u></b>
<b>Authorised:</b>		
100 (2007: 100) ordinary shares of £1 each	<u><b>100</b></u>	<u><b>100</b></u>
<b>Allotted, called up and fully paid:</b>		
100 (2007: 100) ordinary shares of £1 each	<u><b>100</b></u>	<u><b>100</b></u>

### **20 Reserves**

	<b>Retained earnings <u>£'000</u></b>
At 1 January 2007	8,874
Profit for the year	1,691
Dividends	<u>(6,000)</u>
At 31 December 2007	<u><b>4,565</b></u>
At 1 January 2008	4,565
Loss for the year	<u>(13,282)</u>
At 31 December 2008	<u><b>(8,717)</b></u>

## LOMBARD VEHICLE MANAGEMENT (1) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

#### 21 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 and retained earnings as disclosed in notes 19 and 20. 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.

##### Categories of financial instruments

The carrying value of each category of financial instruments, as defined in IAS 39, is disclosed in the following table:

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Financial assets:		
Loans and receivables	<b>11,416</b>	8,803
Non financial assets	<b>213,048</b>	239,001
	<b><u>224,464</u></b>	<b><u>247,804</u></b>
Financial liabilities:		
Amortised cost	<b>205,969</b>	212,008
Non financial liabilities	<b>27,212</b>	31,231
	<b><u>233,181</u></b>	<b><u>243,239</u></b>

##### 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.

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

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2008**

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

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 give 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 loss before tax for the year would have increased by £1,080,000 (2007: profit for the year before tax would have decreased by £1,060,000). 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**

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company. Credit risk arises principally from the Company's lending activities.



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

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2008**

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

#### **Credit risk (continued)**

##### 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>2008</b>							
Finance lease receivables	<b>11,416</b>	-	-	-	-	-	<b>11,416</b>
<b>2007</b>							
Finance lease receivables	<b>8,803</b>	-	-	-	-	-	<b>8,803</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 17 and 18.

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 2008**

#### **21 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.

#### **22 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.

#### **23 Post balance sheet events**

On 30 June 2009 a review of the level of residual values determined that there has been a recovery of these since the balance sheet date. As a result, £8,986,000 of the additional depreciation charge made and disclosed in note 13 has been reversed, thereby crediting the income statement and increasing the carrying value of property, plant and equipment.

#### **24 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.

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 2008, The Royal Bank of Scotland Group plc heads the largest group into which the Company is consolidated and The Royal Bank of Scotland plc heads the smallest group into 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.

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

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2008**

### **24 Related parties (continued)**

#### **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 1 December 2008 to 31 December 2008 is impractical.

As at 31 December 2008 balances with the UK Government and affiliated bodies were:

	<u>£'000</u>
Central Government	485
Local Government	15
	<u>500</u>

#### **Related party transactions with group undertakings**

The table below details balances and transactions with group undertakings.

	At 1 January 2008 <u>£'000</u>	Net payments <u>£'000</u>	Net interest paid <u>£'000</u>	At 31 December 2008 <u>£'000</u>
Banking members of the group:				
Other RBS Group undertakings	-	12,763	(12,763)	-
Other members of the group:				
Other RBS Group undertakings	(212,008)	6,911	-	(205,097)
<b>Total</b>	<u>(212,008)</u>	<u>19,674</u>	<u>(12,763)</u>	<u>(205,097)</u>

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

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

Expenses of £7,360,000 (2007: £6,853,000) 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 (2007 - £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2007 - none).