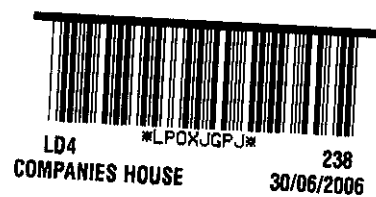


**Company Registration No: 02608503**

**ROYSCOT MOTOR FINANCE LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 December 2005**



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

# ROYSCOT MOTOR FINANCE LIMITED

## CONTENTS

	<b>Page</b>
Officers and Professional Advisers	1
Directors' Report	2
Independent Auditors' Report	5
Income Statement	7
Statement of Changes in Equity	8
Balance Sheet	9
Cash Flow Statement	10
Notes to the Financial Statements	11

**ROYSCOT MOTOR FINANCE LIMITED**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**

**E Hawthorne**  
**K J McLean**  
**J C H Rudge**  
**J D Stuart**

**SECRETARY:**

**R E Fletcher**

**REGISTERED OFFICE:**

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

**AUDITORS:**

**Deloitte & Touche LLP**  
**London**

**Registered in England and Wales.**

# **ROYSCOT MOTOR FINANCE LIMITED**

## **DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2005.

## **ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Company is the provision of hire purchase facilities for new and used motor cars as specified in an agreement dated 1 June 1992 between RoyScot Trust plc, Arnold Clark Automobiles Limited and the Company.

The profit for the year was £344,034 (2004: profit of £336,672) and this was transferred to reserves. No dividend was paid during the year (2004: £100,000).

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.

From 1 January 2005 to date the following changes have taken place:

<b>Directors</b>	<b>Appointed</b>	<b>Resigned</b>
M W Treacy		19 January 2005
J C H Rudge	19 January 2005	
<b>Secretary</b>		
A M Cunningham		30 November 2005
R E Fletcher	1 December 2005	

## ROYSCOT MOTOR FINANCE LIMITED

### DIRECTORS' REPORT (Continued)

#### DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare accounts for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the Company. In preparing these accounts, 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 accounts; 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 Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### DIRECTORS' INDEMNITIES

In terms of Section 309C of the Companies Act 1985 (as amended), Mr J D Stuart has been granted Qualifying Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

#### DIRECTORS' INTERESTS

No director had an interest in the shares of the Company.

The following directors were beneficially interested in the ordinary shares of The Royal Bank of Scotland Group plc:

	As at 1 January 2005 *	As at 31 December 2005
J C H Rudge	402	1,357
J D Stuart	5,767	6,774

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised during the period by the following directors of the Company and connected persons are:

	As at 1 January 2005 *	Granted during the period		Exercised during the period		As at 31 December 2005
		Options	Price (p)	Options	Price (p)	
J C H Rudge	3,569	-	-	769	1235	2,800
J D Stuart	28,410	456	1304	616	985	32,839
		4,589	1729			

No director had an interest in the preference shares of The Royal Bank of Scotland Group plc during the year to 31 December 2005.

\* or date of appointment, if later.

## ROYSCOT MOTOR FINANCE LIMITED

### DIRECTORS' REPORT (Continued)

### DIRECTORS' INTERESTS (Continued)

The following director was beneficially interested in Floating Rate Unsecured Loan Notes 2005, of The Royal Bank of Scotland Group plc:

	As at 1 January 2005	As at 31 December 2005
J D Stuart	2,148	Nil

Other than as disclosed, none of the directors in office at 31 December 2005 held any interest in the share or loan capital of the Company or any other group company.

### USE OF FINANCIAL INSTRUMENTS

The Company's financial risk management policies and exposure in relation to the respective risks are detailed in note 17 of the financial statements.

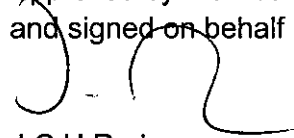
### ELECTIVE RESOLUTIONS

The Company has elected to dispense with the requirement to hold annual general meetings, lay accounts before a general meeting and re-appointment of auditors annually.

### 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



J C H Rudge  
Secretary

Date: 30.6.06

## **ROYSCOT MOTOR FINANCE LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROYSCOT MOTOR FINANCE LIMITED**

We have audited the financial statements of RoyScot Motor Finance Limited for the year ended 31 December 2005 which comprise the income statement, the statement of changes in equity, the balance sheet, the cashflow statement and the related notes 1 to 23. 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 the 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 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**

As described in the directors' report, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant framework and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the Company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### **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.

# **ROYSCOT MOTOR FINANCE LIMITED**

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROYSCOT MOTOR FINANCE 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 2005 and of its profit for the year then ended in accordance with International Financial Reporting Standards as adopted for use in the European Union and have been properly prepared in accordance with the Companies Act 1985.

### **SEPARATE OPINION IN RELATION TO IFRS**

As explained in Note 1, the Company, in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**

**Chartered Accountants and Registered Auditors**

**London**

**Date:** 30 June 2006



# ROYSCOT MOTOR FINANCE LIMITED

## INCOME STATEMENT

for the year ended 31 December 2005

	Note	2005 £	2004 £
<b>Continuing operations</b>			
Revenue	2	2,859,957	3,049,019
Other operating charges	3	<u>(1,067,201)</u>	<u>(1,177,580)</u>
<b>Operating profit</b>		1,792,756	1,871,439
Finance costs	4	<u>(1,301,279)</u>	<u>(1,390,479)</u>
<b>Profit on ordinary activities before tax</b>		491,477	480,960
Tax charge on profit on ordinary activities	5	<u>(147,443)</u>	<u>(144,288)</u>
<b>Profit for the year</b>	16	<u><u>344,034</u></u>	<u><u>336,672</u></u>

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

**ROYSCOT MOTOR FINANCE LIMITED**

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2005

	Share capital £	Retained earnings £	Total equity £
At 1 January 2004	1,000	30,794	31,794
Profit for the year	-	336,672	336,672
Dividends	-	(100,000)	(100,000)
At 31 December 2004	<u>1,000</u>	<u>267,466</u>	<u>268,466</u>
At 1 January 2005	1,000	267,466	268,466
Profit for the year	-	344,034	344,034
At 31 December 2005	<u>1,000</u>	<u>611,500</u>	<u>612,500</u>

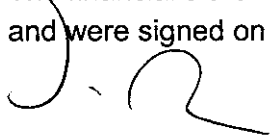
The notes on pages 11 to 25 form a part of these financial statements.

# ROYSCOT MOTOR FINANCE LIMITED

## BALANCE SHEET at 31 December 2005

	Note	2005 £	2004 £
<b>Non-current assets</b>			
Hire purchase receivables	7	11,640,736	14,321,931
Loans and receivables	8	677,119	20,764
Property, plant and equipment	9	-	-
Deferred tax assets	10	4,300	78,384
		<u>12,322,155</u>	<u>14,421,079</u>
<b>Current assets</b>			
Cash and cash equivalents	11	31,066	65,387
Hire purchase receivables	7	8,902,227	10,221,480
Loans and receivables	8	117,780	20,007
Trade and other receivables	12	565	8,887
		<u>21,373,793</u>	<u>24,736,840</u>
<b>Total assets</b>			
		<u><u>21,373,793</u></u>	<u><u>24,736,840</u></u>
<b>Current liabilities</b>			
Amounts owed to group undertakings	13	20,676,279	24,333,396
Trade and other payables	14	85,014	134,978
		<u>20,761,293</u>	<u>24,468,374</u>
<b>Net assets</b>		<u><u>612,500</u></u>	<u><u>268,466</u></u>
<b>Equity</b>			
Share capital	15	1,000	1,000
Reserves	16	611,500	267,466
		<u>612,500</u>	<u>267,466</u>
<b>Total equity</b>		<u><u>612,500</u></u>	<u><u>268,466</u></u>

The financial statements were approved by the board of directors on  
and were signed on its behalf by:



**J C H Rudge**  
Director

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

# ROYSCOT MOTOR FINANCE LIMITED

## CASH FLOW STATEMENT

for the year ended 31 December 2005

	Note	2005 £	2004 £
<b>Operating activities</b>			
Profit before tax		491,477	480,960
<b>Operating profit before changes in working capital and provisions</b>		491,477	480,960
Decrease in hire purchase receivables		4,000,448	2,543,462
(Increase)/decrease in loans and receivables		(754,128)	22,718
Decrease in trade and other receivables		8,322	17,001
Increase in amounts owed to group undertakings		(3,730,476)	(2,747,028)
Decrease in trade and other payables		(49,964)	(151,886)
<b>Net cash (used in)/generated from the operations</b>		(34,321)	165,227
Tax (paid)/received		-	-
<b>Net cash (used in)/from operating activities</b>		(34,321)	165,227
<b>Net cash from investing activities</b>		-	-
<b>Financing activities</b>			
Dividends paid		-	(100,000)
<b>Net cash used in financing activities</b>		-	(100,000)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(34,321)	65,227
Cash and cash equivalents at 1 January		65,387	160
<b>Cash and cash equivalents at 31 December</b>	11	31,066	65,387

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

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

### 1 Accounting policies

#### a. Adoption of International Financial Reporting Standards

The financial statements have, for the first time, been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS). The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS regulation. The date of transition to IFRS for the Company and date of its opening IFRS balance sheet was 1 January 2004.

The main differences between IFRS and previously applied generally accepted accounting principles (UK GAAP) and the effect of implementing IFRS on the Company's balance sheets as at 1 January 2004 and 31 December 2004 and the Company's 2004 income statement is set out in notes 22 and 23.

On initial adoption of IFRS, the Company applied the following exemptions from the requirements of IFRS and from their retrospective application as permitted by IFRS 1 'First-time adoption of International Financial Reporting Standards' (IFRS 1):

Implementation of IAS 32 and IAS 39 - as allowed by IFRS 1, the Company implemented IAS 32 and IAS 39 with effect from 1 January 2005 without restating the income statement, balance sheet and notes for 2004. In preparing the Company's 2004 income statement and balance sheet, UK GAAP principles then current have been applied to financial instruments. The effect of implementing IAS 32 and IAS 39 is given in note 23.

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations, which have not been applied in the financial statements, were in issue but not yet effective:

IFRS 7: *Financial instruments: Disclosures* and the related amendment to IAS 1 on capital disclosures.

The directors anticipate that the adoption of these Standards in future periods will have no material impact on the financial statements of the Company except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

#### b. Accounting convention

The financial statements have been prepared upon the basis of historical cost and in accordance with applicable United Kingdom law and International Financial Reporting Standards.

#### c. Revenue recognition

Revenue from hire purchase business and loans and receivables is recognised in accordance with the Company's policies on hire purchase business and loans and receivables (see below). Revenue arises in the United Kingdom from continuing activities.

#### d. Hire purchase business

Hire purchase contracts are accounted for under IAS 17; which states that the definition of a lease includes contracts for the hire of an asset that contain a provision giving the hirer an option to acquire title to the asset upon the fulfillment of the agreed conditions.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Fee income and interest on hire purchase agreements are credited to the income statement in proportion to the balances outstanding.

Hire purchase receivables are stated in the balance sheet at the net investment in the contract and net of provisions for bad and doubtful debt.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**for the year ended 31 December 2005**

**1 Accounting policies (Continued)**

**e. Loans and receivables**

Fee income and interest on instalment credit agreements are credited to the income statement in proportion to the balances outstanding.

Loans and receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**f. 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>
Equipment	5 years

**g. 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.

**h. Taxation**

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate.

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, except in relation to overseas earning where remittance is controlled by the Group.

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**for the year ended 31 December 2005**

**1 Accounting policies (Continued)**

**i. 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.

**j. Trade receivables**

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**k. Amounts owed to group undertakings**

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

**l. Trade payables**

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

**m. Other operating charges**

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, including management charges and commissions payable, are accounted for on an accruals basis.

**n. Finance costs**

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

**o. Related parties**

IFRS requires all entities to disclose related party transactions. The Company's policy is to have regard to materiality from the shareholders' perspective.

**p. 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.

# ROYSCOT MOTOR FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2005

### 2 Revenue

	2005 £	2004 £
Hire purchase agreements	2,600,622	2,843,984
Other instalment credit agreements	66,955	(15,978)
Other revenue	192,380	221,013
	<u>2,859,957</u>	<u>3,049,019</u>

### 3 Operating charges

	2005 £	2004 £
Commission payable	1,047,645	1,155,955
Bad debt charge	30,657	962
Other (income)/charges	(11,101)	20,663
	<u>1,067,201</u>	<u>1,177,580</u>

The Company had no employees in the current year (2004 – nil).

Employee costs are incurred by the intermediate parent Company, Lombard North Central PLC, and allocated together with other overheads by way of a management charge to the Company.

### 4 Finance costs

	2005 £	2004 £
On loans and payables:		
To group undertakings	<u>1,301,279</u>	<u>1,390,479</u>

### 5 Tax charge on profit on ordinary activities

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

	2005 £	2004 £
Current taxation:		
Income tax charge for the year	73,359	145,364
Deferred taxation (note 10):		
Charge/(credit) for the year	74,084	(1,076)
Tax charge for the year	<u>147,443</u>	<u>144,288</u>

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

The actual tax charge in the current and prior year does not differ from the expected tax charge computed by applying the standard rate of UK corporation tax of 30% (2004: 30%).



# **ROYSCOT MOTOR FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2005**

### **6 Profit for the year**

Profit for the year has been arrived at after charging:

Auditors' remuneration:

	<u>£</u>	<u>£</u>
Audit services	<u>4,000</u>	<u>4,000</u>

### **7 Hire purchase receivables**

**2005**

	Year in which receipt is expected			Total £
	Within 1	Between	After	
	year	1 and 5	5 years	
	£	£	£	£
Future minimum lease payments	10,805,773	12,908,599	-	23,714,372
Unearned finance income	(1,822,893)	(1,267,863)	-	(3,090,756)
Present value	<u>8,982,880</u>	<u>11,640,736</u>	-	<u>20,623,616</u>
Provisions	(80,653)	-	-	(80,653)
Net carrying value	<u>8,902,227</u>	<u>11,640,736</u>	-	<u>20,542,963</u>

**2004**

	Year in which receipt is expected			Total £
	Within 1	Between	After	
	year	1 and 5	5 years	
	£	£	£	£
Future minimum lease payments	12,370,247	15,859,258	-	28,229,505
Unearned finance income	(2,038,642)	(1,537,327)	-	(3,575,969)
Present value	<u>10,331,605</u>	<u>14,321,931</u>	-	<u>24,653,536</u>
Provisions	(110,125)	-	-	(110,125)
Net carrying value	<u>10,221,480</u>	<u>14,321,931</u>	-	<u>24,543,411</u>

## ROYSCOT MOTOR FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2005

#### 7 Hire purchase receivables (Continued)

The Company enters into hire purchase agreements in relation to items as described in the directors' report. These are all at fixed rates and the average effective interest rate in relation to these agreements approximates 11% (2004: 10.5%).

The fair value of hire purchase 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 period.

#### 8 Loans and receivables

	2005 £	2004 £
<b>Non-current</b>		
Net investment in instalment credit due within one year	677,119	20,764
<b>Current</b>		
Net investment in instalment credit due after one year	117,780	20,007
	<u>794,899</u>	<u>40,771</u>

The average effective interest rate in relation to instalment credit agreements approximates 11% (2004: 11.6%)

The fair value of loans and receivables is considered not to be materially different to the carrying amounts in the balance sheet.

# **ROYSCOT MOTOR FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)** **for the year ended 31 December 2005**

### **9 Property, plant and equipment**

	Equipment £'000
<b>Cost</b>	
At 1 January 2005 and at 31 December 2005	<u>95,029</u>
At 1 January 2004 and at 31 December 2004	<u>95,029</u>
<b>Accumulated depreciation and impairment</b>	
At 1 January 2005 and at 31 December 2005	<u>95,029</u>
At 1 January 2004 and at 31 December 2004	<u>95,029</u>
<b>Net book value</b>	
<b>31 December 2005</b>	<u>-</u>
31 December 2004	<u>-</u>

### **10 Deferred taxation**

Provision for deferred taxation has been made as follows:

	Accelerated capital allowances £	Other £	Total £
At 1 January 2004 under UK GAAP	2,481	20,227	22,708
Implementation of IFRS (excluding IAS 32 and IAS 39)	<u>-</u>	<u>54,600</u>	<u>54,600</u>
At 1 January 2004 restated	2,481	74,827	77,308
Credit to income statement	(620)	1,696	1,076
At 1 January 2005	<u>1,861</u>	<u>76,523</u>	<u>78,384</u>
Implementation of IAS 32 and IAS 39	<u>-</u>	<u>-</u>	<u>-</u>
At 1 January 2005 restated	1,861	76,523	78,384
Charge to income statement	2,439	(76,523)	(74,084)
At 31 December 2005	<u>4,300</u>	<u>-</u>	<u>4,300</u>

# ROYSCOT MOTOR FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2005

### 11 Cash and cash equivalents

	2005 £	2004 £
Cash and cash equivalents per balance sheet:		
Amounts held with group undertakings	<u>31,066</u>	<u>65,387</u>

### 12 Trade and other receivables

	2005 £	2004 £
Other receivables	<u>565</u>	<u>8,887</u>

### 13 Amounts owed to group undertakings

	2005 £	2004 £
<b>Current liabilities</b>		
Amounts due on demand	<u>20,676,279</u>	<u>24,333,396</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 average effective interest rate over this loan is 5.8% (2004: 5.3%).

### 14 Trade and other payables

	2005 £	2004 £
Other payables	85,014	111,378
Accruals	-	23,600
	<u>85,014</u>	<u>134,978</u>

### 15 Share capital

	2005 £	2004 £
<b>Authorised:</b>		
1,000 (2004: 1,000) ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<b>Allotted, called up and fully paid:</b>		
1,000 (2004: 1,000) ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

## ROYSCOT MOTOR FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2005

#### 16 Reserves

	<b>Retained earnings £</b>
At 1 January 2004	30,794
Profit for the year	336,672
Dividends	<u>(100,000)</u>
At 31 December 2004	<u>267,466</u>
At 1 January 2005	267,466
Profit for the year	<u>344,034</u>
<b>At 31 December 2005</b>	<b><u>611,500</u></b>

#### 17 Financial Instruments

The Company uses a comprehensive framework for managing these 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:

##### **Market risk**

Market risk is the risk that changes in interest rates, foreign exchange or other market conditions will have an adverse impact on the Company's financial condition or results.

##### **Interest rate risk**

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

Hire purchase receivables and other instalment credit receivables are funded primarily through balances owed to group undertakings. This funding is due primarily on demand whereas the repricing maturity profile of the financial assets of the Company will be over a longer period of time.

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.

##### **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.

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

## ROYSCOT MOTOR FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2005

#### 17 Financial instruments (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.

#### 18 Related parties

The Company's immediate parent and ultimate controlling party are described in note 19.

The table below details balances and transactions with group undertakings.

	Opening balance £	Net receipts / (payments) £	Net interest (paid) / received £	Closing balance £
Amounts owed to non-banking members of the group:				
Parent	(29,072,505)	9,819,452	(1,301,279)	(20,554,332)
Other RBS Group undertakings	4,739,109	(4,861,056)	-	(121,947)
<b>Total</b>	<u>(24,333,396)</u>	<u>4,958,396</u>	<u>(1,301,279)</u>	<u>(20,676,279)</u>

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

##### Other related party transactions

No emoluments were paid to any director by the Company during the year (2004 - £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2004 - £nil).

## **ROYSCOT MOTOR FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2005**

#### **19 Parent companies**

The Company's immediate parent Company is RoyScot Trust 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. 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.

#### **20 Post balance sheet events**

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

#### **21 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.

#### **22 Explanation of transition to adopted IFRS**

As stated in note 1, these are the Company's first financial statements prepared in accordance with Adopted IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

# ROYSCOT MOTOR FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2005

### 22 Explanation of transition to adopted IFRS (Continued)

#### Effect of transition at 1 January 2004

	Note	UK GAAP £	Effect of transition to adopted IFRS £	Adopted IFRS £
<b>Non-current assets</b>				
Hire purchase receivables	a	16,252,024	(109,199)	16,142,825
Loans and receivables		32,777	-	32,777
Property, plant and equipment		-	-	-
Deferred tax assets	b	22,708	54,600	77,308
		<u>16,307,509</u>	<u>(54,599)</u>	<u>16,252,910</u>
<b>Current assets</b>				
Cash and cash equivalents	c	-	160	160
Hire purchase receivables	a	11,016,849	(72,801)	10,944,048
Loans and receivables	c	30,872	(160)	30,712
Trade and other receivables		25,888	-	25,888
		<u>11,073,609</u>	<u>(72,801)</u>	<u>11,000,808</u>
<b>Total assets</b>		<u>27,381,118</u>	<u>(127,400)</u>	<u>27,253,718</u>
<b>Current liabilities</b>				
Amounts owed to group undertakings		26,935,060	-	26,935,060
Trade and other payables	d	386,864	(100,000)	286,864
		<u>27,321,924</u>	<u>(100,000)</u>	<u>27,221,924</u>
<b>Net assets</b>		<u>59,194</u>	<u>(27,400)</u>	<u>31,794</u>
<b>Equity</b>				
Share capital		1,000		1,000
Retained earnings		58,194	(27,400)	30,794
<b>Total equity</b>		<u>59,194</u>	<u>(27,400)</u>	<u>31,794</u>



# ROYSCOT MOTOR FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22 Explanation of transition to adopted IFRSs (Continued)

#### Effect of transition at 31 December 2004

	Note	UK GAAP £	Effect of transition to adopted IFRS £	Adopted IFRS £
<b>Non-current assets</b>				
Hire purchase receivables	a	14,436,039	(114,108)	14,321,931
Loans and receivables		20,764	-	20,764
Property, plant and equipment		-	-	-
Deferred tax assets	b	20,184	58,200	78,384
		<u>14,476,987</u>	<u>(55,908)</u>	<u>14,421,079</u>
<b>Current assets</b>				
Cash and cash equivalents	c	-	65,387	65,387
Hire purchase receivables	a	10,301,372	(79,892)	10,221,480
Loans and receivables	c	85,394	(65,387)	20,007
Trade and other receivables		8,887	-	8,887
		<u>10,395,653</u>	<u>(79,892)</u>	<u>10,315,761</u>
<b>Total assets</b>		<u>24,872,640</u>	<u>(135,800)</u>	<u>24,736,840</u>
<b>Current liabilities</b>				
Amounts owed to group undertakings		24,333,396	-	24,333,396
Trade and other payables		134,978	-	134,978
		<u>24,468,374</u>	<u>-</u>	<u>24,468,374</u>
<b>Net assets</b>		<u>404,266</u>	<u>(135,800)</u>	<u>268,466</u>
<b>Equity</b>				
Share capital		1,000	-	1,000
Retained earnings		403,266	(135,800)	267,466
<b>Total equity</b>		<u>404,266</u>	<u>(135,800)</u>	<u>268,466</u>

# ROYSCOT MOTOR FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22 Explanation of transition to adopted IFRSs (Continued)

#### Reconciliation of profit for the year ended 31 December 2004

	Note	UK GAAP £	Effect of transition to adopted IFRS £	Adopted IFRS £
Revenue	a	3,061,019	(12,000)	3,049,019
Other operating charges		(1,177,580)	-	(1,177,580)
<b>Operating profit</b>		1,883,439	(12,000)	1,871,439
Finance costs		(1,390,479)	-	(1,390,479)
<b>Profit on ordinary activities before tax</b>		492,960	(12,000)	480,960
Tax charge on profit on ordinary activities	b	(147,888)	3,600	(144,288)
<b>Profit for the year</b>		<u>345,072</u>	<u>(8,400)</u>	<u>336,672</u>

#### Reconciliation of cashflow statement for the year ended 31 December 2004

Under UK GAAP, the Company was not required to, and did not, prepare a cash flow statement.

#### Explanatory notes

- Under IFRS certain types of fee income are recognised over the term of the contract to which they relate. Under UK GAAP these fees are recognised as they are due.
- As a result of the change in recognition of fee income, the deferred tax balance differs under IFRS to that as calculated under UK GAAP.
- Bank accounts with group undertakings were recognised as amounts owed to or from group undertakings under UKGAAP. Under IFRS these balances are recognised as cash and cash equivalents.
- Under UK GAAP proposed dividends were accrued and recognised in the income statement to which they relate. Under IFRS dividends are accounted for as they are declared.

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

**23 Implementation of IAS 32 and IAS 39**

The Company implemented IAS 32 and IAS 39 with effect from 1 January 2005.

As allowed by IFRS, the Company has not restated its 2004 income statement and balance sheet to comply with IAS 32 and IAS 39. In preparing the Company's 2004 income statement and balance sheet, UK GAAP principles then current have been applied to financial instruments.

The principal areas affected by the implementation of IAS 32 and IAS 39 are:

- the carrying value of financial assets and financial liabilities.
- the methodology assessing the impairment of financial assets.

In the opinion of the directors there are no material impacts resulting from the implementation of IAS 32 and IAS 39 in the current year.