

Company Registration No: 03930930

GL LEASE COMPANY NO.8 LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2009

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

THURSDAY



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COMPANIES HOUSE

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GL LEASE COMPANY NO.8 LIMITED

Company Registration No 03930930

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:
N T J Clibbens
C F Glenn
I J Isaac
B K Weir

SECRETARY: L H Cameron

REGISTERED OFFICE: 3 Princess Way
Redhill
Surrey
RH1 1NP

AUDITORS: Deloitte LLP
St Albans

Registered in England and Wales.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2009

ACTIVITIES AND BUSINESS REVIEW

This directors' report has been prepared in accordance with the special provisions available to companies entitled to the small companies exemption

Activity

The principal activity of the Company is the provision of residual value guarantees

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

Review of the year

The profit for the year was £1,587 (2008 loss of £97,142) and this was transferred to reserves. An interim dividend of £6,209 was paid during the year (2008 £113,416)

Post balance sheet events are described in note 18

Going concern

The Company's business activities and review are outlined above and the Company's financial position, cash flows and liquidity position are set out in the financial statements

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 AND SECRETARY

The present directors and secretary, who have served throughout the year are listed on page 1

DIRECTORS' REPORT (Continued)

DIRECTORS' RESPONSIBILITIES

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 the financial statements 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 as concern members of the company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to

- select suitable accounting policies and 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 on the entity's financial position and financial 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 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

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

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 418 of the Companies Act 2006

DIRECTORS' REPORT (Continued)

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

A handwritten signature in black ink, appearing to be 'N T J Clibbens', written over a horizontal line.

N T J Clibbens
Director

Date 28 SEP 2010

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
GL LEASE COMPANY NO.8 LIMITED**

We have audited the financial statements of GL Lease Company No 8 Limited ('the Company') for the year ended 31 December 2009 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 20. 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 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

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 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 (APB'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 2009 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 AUDITORS' REPORT TO THE MEMBERS OF
GL LEASE COMPANY NO.8 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, or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report



Paul Schofield (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
St Albans, United Kingdom

Date 21 September 2010

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

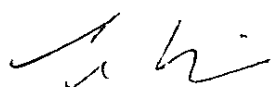
| | Note | 2009 £ | 2008 £ (Restated) |
|---|------|---------------------|-------------------------|
| Continuing operations | | | |
| Revenue | 4 | 2,488 | 127,464 |
| Operating charges | 5 | (1,893) | (1,952) |
| Operating profit | | <u>595</u> | <u>125,512</u> |
| Fair value gains/(losses) | | 1,087 | (284,149) |
| Finance income | 6 | 523 | 3,439 |
| Profit/(loss) before tax | | <u>2,205</u> | <u>(155,198)</u> |
| Tax | 7 | (618) | 58,056 |
| Profit/(loss) for the year | 8 | <u>1,587</u> | <u>(97,142)</u> |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income/(loss) for the year attributable to the equity holders of the Company | 16 | <u><u>1,587</u></u> | <u><u>(97,142)</u></u> |

The notes on pages 11 to 23 form a part of these financial statements

BALANCE SHEET
at 31 December 2009

| | Note | 2009 £ | 2008 £ (Restated) | 2007 £ (Restated) |
|---|------|-----------------|-------------------------|-------------------------|
| Non-current assets | | | | |
| Trade and other receivables | 10 | - | 102 | 712 |
| Derivatives at fair value | 11 | - | 67,025 | 61,988 |
| | | - | 67,127 | 62,700 |
| Current assets | | | | |
| Loans and receivables | 12 | 37,826 | 49,445 | 78,877 |
| Trade and other receivables | 10 | 31 | 13,247 | 849 |
| Derivatives at fair value | 11 | 68,112 | - | 289,186 |
| | | 105,969 | 62,692 | 368,912 |
| Total assets | | 105,969 | 129,819 | 431,612 |
| Non-current liabilities | | | | |
| Trade and other payables | 13 | - | 203 | 1,423 |
| Deferred tax liabilities | 14 | 149,851 | 174,827 | 214,073 |
| | | 149,851 | 175,030 | 215,496 |
| Current liabilities | | | | |
| Trade and other payables | 13 | 1,000 | 2,220 | 12,450 |
| Tax payable | | 15,149 | 7,978 | 48,517 |
| | | 16,149 | 10,198 | 60,967 |
| Total liabilities | | 166,000 | 185,228 | 276,463 |
| Net assets | | (60,031) | (55,409) | 155,149 |
| Equity | | | | |
| Share Capital | 15 | 4 | 4 | 4 |
| Reserves | 16 | (60,035) | (55,413) | 155,145 |
| Total equity attributable to the equity holders of the Company | | (60,031) | (55,409) | 155,149 |

The financial statements were approved by the board of directors and authorised for issue on **28 SEP 2010** and were signed on its behalf by



N T J Clibbens
Director

The notes on pages 11 to 23 form a part of these financial statements

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

| | Note | Share capital £ | Retained earnings £ | Total equity £ |
|---|------|-----------------------|---------------------------|----------------------|
| At 1 January 2008 as originally stated | | 4 | 63,160 | 63,164 |
| Prior period restatement | | - | 91,985 | 91,985 |
| At 1 January 2008 (restated) | | 4 | 155,145 | 155,149 |
| Total comprehensive loss for the year | | - | (97,142) | (97,142) |
| Dividends paid | 9 | - | (113,416) | (113,416) |
| At 31 December 2008 | | <u>4</u> | <u>(55,413)</u> | <u>(55,409)</u> |
| At 1 January 2009 as originally stated | | 4 | 41,944 | 41,948 |
| Prior period restatement | | - | (97,357) | (97,357) |
| At 1 January 2009 (restated) | | 4 | (55,413) | (55,409) |
| Total comprehensive income for the year | | - | 1,587 | 1,587 |
| Dividends paid | 9 | - | (6,209) | (6,209) |
| At 31 December 2009 | | <u>4</u> | <u>(60,035)</u> | <u>(60,031)</u> |

CASH FLOW STATEMENT

for the year ended 31 December 2009

| | Note | 2009 £ | 2008 £ (Restated) |
|---|------|----------------|-------------------------|
| Operating activities | | | |
| Profit/(loss) before tax | | 2,205 | (155,198) |
| <i>Adjustments for</i> | | | |
| Fair value (gains)/losses | | (1,087) | 284,149 |
| Finance income | 6 | (523) | (3,439) |
| Operating profit before changes in working capital | | <u>595</u> | <u>125,512</u> |
| Decrease/(increase) in trade and other receivables | | 13,318 | (11,788) |
| Decrease in amounts owed by group undertakings | | 11,619 | 29,432 |
| Decrease in trade and other payables | | (1,423) | (11,450) |
| Net cash generated from the operations | | <u>24,109</u> | <u>131,706</u> |
| Interest received | | 523 | 3,439 |
| Tax paid | | (18,423) | (21,729) |
| Net cash from operating activities | | <u>6,209</u> | <u>113,416</u> |
| Net cash from investing activities | | <u>-</u> | <u>-</u> |
| Financing activities | | | |
| Dividends paid | 9 | (6,209) | (113,416) |
| Net cash used in financing activities | | <u>(6,209)</u> | <u>(113,416)</u> |
| Net increase in cash and cash equivalents | | - | - |
| Cash and cash equivalents at 1 January | | - | - |
| Cash and cash equivalents at 31 December | | <u>-</u> | <u>-</u> |

The notes on pages 11 to 23 form a part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

1 General information

GL Lease Company No 8 Limited is a company incorporated in Great Britain and registered in England and Wales. The address of the registered office is on page 1. The nature of the Company's principal activities is set out in the Directors' Report. The financial statements are presented in accordance with the Companies Act 2006.

2 Adoption of new and revised Standards

In the current year the Company has adopted the revisions to IAS 1 *Presentation of Financial Statements* which introduced a single performance statement, the 'Statement of Comprehensive Income'. The adoption of this has not led to any changes in the Company's accounting policies, nor has it led to any items being restated or reclassified.

In addition the following Standards issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee have become effective during the current year:

| | |
|----------|--|
| IFRS 8 | <i>Operating Segments,</i> |
| IFRIC 13 | <i>Customer Loyalty Programmes,</i> |
| IFRIC 14 | <i>IAS 19 The Limit on a Defined Benefit Asset,</i> |
| IFRIC 15 | <i>Agreements for the Construction of Real Estate,</i> |
| IFRIC 16 | <i>Hedges of a Net Investment in a Foreign Operation</i> |

The adoption of these has not led to any changes in the Company's accounting policies and has had no material impact on the financial statements.

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 1 (revised 2008) | <i>First-time Adoption of International Financial reporting Standards</i> |
| IFRS 3 (revised 2008) | <i>Business Combinations</i> |
| IFRS 5 (revised 2008) | <i>Non-current Assets Held for Sale and Discontinued Operations</i> |
| IFRS 9 | <i>Financial Instruments - Classification and Measurement,</i> |
| IAS 24 (revised 2009) | <i>Related Party Disclosures - Revised definition of related parties</i> |
| IAS 27 (amended) | <i>Consolidated and Separate Financial Statements</i> |
| IAS 28 (amended) | <i>Investments in Associates</i> |
| IAS 31 (amended) | <i>Interests in Joint Ventures</i> |
| IAS 32 (amended) | <i>Financial Instruments Presentation</i> |
| IAS 39 (amended) | <i>Financial Instruments Recognition and Measurement</i> |
| IFRIC 17 | <i>Distributions of Non-cash Assets to Owners,</i> |
| IFRIC 18 | <i>Transfers of a Foreign Operation,</i> |
| IFRIC 19 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> |
| Annual Improvements to IFRSs (April 2009) | |

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

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 represents net fees and equipment rental income, on goods held for resale, credited to the statement of comprehensive income and net profit of invoiced sales during the year

Residual Value Guarantee fees are accrued evenly over the period of the lease to which the Residual Value Guarantee relates except where, at inception, it is anticipated that losses will be incurred on disposal. Where, at inception, losses are anticipated to arise on disposal, fees received at inception of the lease are deferred to match the anticipated loss on disposal

The Company's profits on disposal of assets are recognised as they arise

Revenue arose in the United Kingdom from continuing activities

c. Derivatives

The Company has entered into written options to acquire assets from lessors at the end of their respective leases at amounts agreed at the beginning of the related lease contract such as to guarantee a certain return to the lessor. The value of these options changes in response to the uncertainty of the market for that asset as well as general economic conditions and settlement can be made net in cash. These contracts are therefore classified as derivatives under IAS 39

These derivatives are recognised initially, and subsequently measured, at fair value. Fair value is derived from the expected residual value at maturity of the contract by reference to the Company's past history for values and the Company's projections of the likely future market for each group of assets

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities

Gains and losses arising from changes in fair value of a derivative are recognised in profit or loss as they arise

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3 Accounting policies (continued)

d. Trade and other receivables

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

e. Loans and receivables

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. Taxation

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

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

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

g. Trade and other payables

Trade and other payables are initially measured at fair value and subsequently at amortised cost.

h. 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 are accounted for on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3 Accounting policies (continued)

i. 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
- Provision for future residual value guarantee losses

The Company's policies in respect of these is noted above

4 Revenue

| | 2009 £ | 2008 £ |
|------------------------------|--------------|----------------|
| Fee Income | 2,488 | 1,464 |
| Net profit on invoiced sales | - | 126,000 |
| | <u>2,488</u> | <u>127,464</u> |

5 Operating charges

| | 2009 £ | 2008 £ |
|---------------------|--------------|--------------|
| Audit fees (note 8) | 1,000 | 1,000 |
| Commission payable | 893 | 952 |
| | <u>1,893</u> | <u>1,952</u> |

The Company had no employees in the current year (2008 – none)

Employee costs are incurred by the intermediate parent company, Lombard North Central PLC

6 Finance income

| | 2009 £ | 2008 £ |
|--------------------------|------------|--------------|
| On loans and receivables | | |
| From group undertakings | 286 | 3,439 |
| Other | 237 | - |
| | <u>523</u> | <u>3,439</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

7 Tax charge on profit before tax

A) Analysis of charge/(credit) for the year

| | 2009 £ | 2008 £ (Restated) |
|---|------------|-------------------------|
| Current taxation | | |
| Income tax charge/(credit) for the year | 25,594 | (18,810) |
| Deferred taxation | | |
| Credit for the year | (24,976) | (39,246) |
| | <u>618</u> | <u>(58,056)</u> |

B) Factors affecting the tax charge/(credit) for the year

The actual tax charge/(credit) differs from the expected tax charge/(credit) computed by applying the standard rate of UK corporation tax of 28% (2008 28.5%) as follows

| | 2009 £ | 2008 £ (Restated) |
|------------------------------|------------|-------------------------|
| Expected tax charge/(credit) | 618 | (44,231) |
| Tax rate change | - | (13,825) |
| Actual tax charge/(credit) | <u>618</u> | <u>(58,056)</u> |

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

8 Profit for the year

Profit for the year has been arrived at after charging

| | 2009 £ | 2008 £ |
|------------------------|--------------|--------------|
| Auditors' remuneration | | |
| Audit services | <u>1,000</u> | <u>1,000</u> |

9 Dividends

| | 2009 £ | 2008 £ |
|--|--------------|----------------|
| 'A' ordinary shares | | |
| Interim dividend of £3,105 per ordinary share (2008 £56,708) | 3,105 | 56,708 |
| 'B' ordinary shares | | |
| Interim dividend of £1,035 per ordinary share (2008 £18,903) | 3,104 | 56,708 |
| | <u>6,209</u> | <u>113,416</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

10 Trade and other receivables

| | 2009 | 2008 | 2007 |
|--------------------------------|-----------|---------------|--------------|
| | £ | £ | £ |
| Non-current assets | | | |
| Prepayments and accrued income | - | 102 | 712 |
| Current Assets | | | |
| Prepayments and accrued income | - | 610 | 732 |
| Other receivables | 4 | 4 | 4 |
| VAT receivable | 27 | 12,633 | 113 |
| | <u>31</u> | <u>13,247</u> | <u>849</u> |
| | <u>31</u> | <u>13,349</u> | <u>1,561</u> |

11 Derivatives at fair value

The Company has entered into written options to acquire assets from lessors at the end of their respective leases at amounts agreed at the beginning of the related lease contract such as to guarantee a certain return to the lessor. The value of these options changes in response to the uncertainty of the market for that asset as well as general economic conditions and settlement can be made net in cash. These contracts are therefore classified as derivatives under IAS 39.

At the year end, the notional principal amounts and fair values of the Company's derivatives were as follows

| | 2009 | 2008 | 2007 |
|----------------------------------|----------------|----------------|----------------|
| | £ | £ | £ |
| | | (Restated) | (Restated) |
| Notional principal amount | <u>234,240</u> | <u>237,900</u> | <u>647,900</u> |
| Fair value | | | |
| Non-current asset | - | 67,025 | 61,988 |
| Current asset | 68,112 | - | 289,186 |
| | <u>68,112</u> | <u>67,025</u> | <u>351,174</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

12 Loans and receivables

| | 2009 £ | 2008 £ | 2007 £ |
|------------------------------------|---------------|---------------|---------------|
| Current | | | |
| Amounts owed by group undertakings | <u>37,826</u> | <u>49,445</u> | <u>78,877</u> |

The average effective interest rate over amounts owed by group undertakings approximates 0.7% (2008 5%)

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

13 Trade and other payables

| | 2009 £ | 2008 £ | 2007 £ |
|--------------------------------|--------------|--------------|---------------|
| Non-current liabilities | | | |
| Accruals and deferred income | - | 203 | 1,423 |
| Current liabilities | | | |
| Accruals and deferred income | 1,000 | 2,220 | 12,450 |
| | <u>1,000</u> | <u>2,423</u> | <u>13,873</u> |

14 Deferred taxation

Provision for deferred taxation has been made as follows

| | Fair value gains £ (Restated) |
|---|--|
| At 1 January 2008 | 214,073 |
| Credit to statement of comprehensive income | (39,246) |
| At 31 December 2008 | <u>174,827</u> |
| At 1 January 2009 | 174,827 |
| Credit to statement of comprehensive income | (24,976) |
| At 31 December 2009 | <u>149,851</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

15 Share capital

| | 2009 £ | 2008 £ | 2007 £ |
|---|------------|------------|------------|
| Authorised: | | | |
| 25 (2008 25) Class 'A' ordinary shares of £1 each | 25 | 25 | 25 |
| 75 (2008 75) Class 'B' ordinary shares of £1 each | 75 | 75 | 75 |
| | <u>100</u> | <u>100</u> | <u>100</u> |
| Allotted, called up and fully paid: | | | |
| 1 (2008 1) 'A' ordinary shares of £1 each | 1 | 1 | 1 |
| 3 (2008 3) 'B' ordinary shares of £1 each | 3 | 3 | 3 |
| | <u>4</u> | <u>4</u> | <u>4</u> |

Dividends

To the extent that distributable reserves are available and dividends are paid, the holder of each A Share shall be entitled to be paid a dividend in respect of each A share which is three times the value of the dividend paid in respect of each B share

Winding up

On a winding up or on a return of capital or otherwise, the assets of the Company available for distribution shall be applied so that there shall be paid to the holder of the A shares in respect of each A share an amount which is three times that paid to the holder of the B Shares in respect of each B share

Voting rights

The holder of the A Shares shall be entitled to three votes per A share held and the holder of the B Shares shall be entitled to one vote per B Share held, whether on a show of hands or on a poll

16 Reserves

| | Retained earnings £ |
|---|---------------------------|
| At 1 January 2008 as originally stated | 63,160 |
| Prior period restatement | 91,985 |
| At 1 January 2008 (restated) | <u>155,145</u> |
| Total comprehensive loss for the year | (97,142) |
| Dividends paid | <u>(113,416)</u> |
| At 31 December 2008 | <u>(55,413)</u> |
| At 1 January 2009 as originally stated | 41,944 |
| Prior period restatement | (97,357) |
| At 1 January 2009 (restated) | <u>(55,413)</u> |
| Total comprehensive income for the year | 1,587 |
| Dividends paid | <u>(6,209)</u> |
| At 31 December 2009 | <u>(60,035)</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

17 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 15 and 16. 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:

| | 2009 £ | 2008 £ (Restated) | 2007 £ (Restated) |
|---|----------------|-------------------------|-------------------------|
| Financial assets | | | |
| Fair value through profit or loss (FVTPL) | | | |
| Designated as FVTPL | 68,112 | 67,025 | 351,174 |
| Loans and receivables | 37,826 | 49,445 | 78,877 |
| | <u>105,938</u> | <u>116,470</u> | <u>430,051</u> |
| Non financial assets | 31 | 13,349 | 1,561 |
| | <u>105,969</u> | <u>129,819</u> | <u>431,612</u> |
| Non financial liabilities | <u>166,000</u> | <u>185,228</u> | <u>276,463</u> |

Risk management

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

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

Interest rate risk and sensitivity analysis

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

The Company has no significant interest rate risk as all amounts owed from group undertakings are due primarily on demand.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

17 Financial instruments and risk management (continued)

Fair value measurement of financial instruments designated as FVTPL

The valuation technique applied in measuring the fair value of financial instruments designated as fair value through profit or loss is described in note 3c

The table below shows these financial instruments by hierarchy - level 1, level 2 and level3

Level 1 - quoted prices for similar instruments

Level 2 - directly observable market inputs other than Level 1 inputs

Level 3 - inputs not based on observable market data

| | Level 1 £ | Level 2 £ | Level 3 £ | Total £ |
|-----------------------------|--------------|--------------|--------------|----------------|
| 2009 | | | | |
| Derivative financial assets | - | - | 68,112 | 68,112 |
| 2008 | | | | |
| Derivative financial assets | - | - | 67,025 | 67,025 |
| 2007 | | | | |
| Derivative financial assets | - | - | 351,174 | 351,174 |

Risk management

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

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

Interest rate risk and sensitivity analysis

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

The Company has no significant interest rate risk as all amounts owed from group undertakings are due primarily on demand

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

If interest rates had been 0.5% higher and all other variables were held constant, the Company's profit for the year would have increased by £189 (2008 profit for the year would have increased by £247). This is mainly due to the Company's exposure to interest rates on its variable rate lendings. There would be no other impact on equity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

17 Financial instruments and risk management (continued)

Currency risk

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

Credit risk

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

The Company has no significant credit risk as all loans and receivables are with group undertakings
No amounts owed by group undertakings are past due

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 Company has no significant liquidity risk as it has no financial liabilities

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 Post balance sheet events

On 24 September 2010 the Company received a gift of £65,000 from a fellow group undertaking No new shares have been issued, the gift does not attract dividends or other investment return and nor is there an obligation for repayment The gift is to be taken as a capital contribution thereby directly increasing distributable reserves and returning shareholders' funds to a surplus position

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

19 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

19 Related parties (continued)

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 Lessors Limited which is incorporated in Great Britain and registered in England and Wales.

As at 31 December 2009, 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

During the year the Company paid Corporation Tax of £18,423 to Her Majesty's Revenue & Customs (HMRC), a UK Government body. At the balance sheet date the amount of Corporation Tax owed to HMRC was £19,385 (2008: £18,423).

Related party transactions with other group undertakings

The table below details balances and transactions with group undertakings.

| | At 1 January 2009 £ | Net receipts £ | Net interest received £ | At 31 December 2009 £ |
|------------------------------|------------------------------|----------------------|----------------------------------|--------------------------------|
| Other members of the group | | | | |
| Other RBS Group undertakings | <u>49,445</u> | <u>(11,905)</u> | <u>286</u> | <u>37,826</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 (2008 - £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2008 - none).

20 Prior period restatement

As stated in note 11, the Company is party to written options which can be settled net in cash. These have previously been held incorrectly off the balance sheet and disclosed as capital commitments. In the current year the Company has correctly classified these as derivatives and the comparative periods have been restated accordingly.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

20 Prior period restatement (continued)

The impact of the restatement on the statement of comprehensive income for the year ended 31 December 2008, on the balance sheets as at 31 December 2008 and as at 31 December 2007 and on the cash flow statement for the year ended 31 December 2008 is disclosed in the tables below

| | As previously reported <u>£'000</u> | Impact of prior period restatement <u>£'000</u> | Reported as restated <u>£'000</u> |
|--|--|---|--|
| Statement of comprehensive income for the year ended 31 December 2008 | | | |
| Fair value (losses)/gains | - | (284,149) | (284,149) |
| Tax | (36,751) | 94,807 | 58,056 |
| Impact on profit for the year | | <u>(189,342)</u> | |

Balance sheet as at 31 December 2008

| | | | | |
|-------------------------|---------------------------|----------|-----------------|-----------|
| Non-current assets | Derivatives at fair value | - | 67,025 | 67,025 |
| Non-current liabilities | Deferred tax liabilities | - | (174,827) | (174,827) |
| Current liabilities | Tax payable | (18,423) | 10,445 | (7,978) |
| Impact on net assets | | | <u>(97,357)</u> | |
| Retained earnings | | 41,944 | (97,357) | (55,413) |
| Impact on total equity | | | <u>(97,357)</u> | |

Balance sheet as at 31 December 2007

| | | | | |
|-------------------------|---------------------------|---------|---------------|-----------|
| Non-current assets | Derivatives at fair value | - | 61,988 | 61,988 |
| Current assets | Tax receivable | - | - | - |
| Current assets | Derivatives at fair value | - | 289,186 | 289,186 |
| Non-current liabilities | Deferred tax liabilities | - | (214,073) | (214,073) |
| Current liabilities | Tax payable | (3,401) | (45,116) | (48,517) |
| Impact on net assets | | | <u>91,985</u> | |
| Retained earnings | | 63,160 | 91,985 | 155,145 |
| Impact on total equity | | | <u>91,985</u> | |

Cash flow statement for the year ended 31 December 2008

| | | | |
|---|---------|-----------|-----------|
| Profit/(loss) before tax | 128,951 | (284,149) | (155,198) |
| Adjustment for Fair value gains | - | 284,149 | 284,149 |
| Impact on net increase/(decrease) in cash and cash equivalents for the year | | <u>-</u> | |