Company Registration No: 00337004

LOMBARD NORTH CENTRAL PLC

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

LOMBARD NORTH CENTRAL PLC

Company Registration No 00337004

CONTENTS

LOMBARD NORTH CENTRAL PLC

Company Registration No 00337004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	**A D Baldock** **A D Barnard** **N T J Clibbens** **I D Cowie**
SECRETARY:	**N C MacArthur**
REGISTERED OFFICE:	**3 Princess Way** **Redhill** **Surrey** **RH1 1NP**
AUDITORS:	**Deloitte LLP** **London**

Registered in England and Wales.

LOMBARD NORTH CENTRAL PLC

Company Registration No 00337004

DIRECTORS' REPORT

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

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the Company continues to be the provision of credit finance by way of instalment credit, loans and leasing

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

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

Review of the year

The directors are satisfied with the Company's performance in the year The Company will be guided by its immediate parent company in seeking further opportunities for growth No dividend was paid during the year (2008 £85 0m)

The Company's financial performance is presented in the Statement of Comprehensive Income on page 8 At the end of the year, the financial position showed total assets of £6,956 2m (2008 £7,357 9m) and equity of £45 4m (2008 £13 5m)

Employee policies

Details of the number of employees and related costs can be found in Note 6

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 Company is funded by facilities from other members of the Royal Bank of Scotland group

The directors, having made such enquiries as they considered appropriate, including regarding the continuing availability of sufficient resources from the Royal Bank of Scotland 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 year ended 31 December 2009, approved on 24 February 2010, which were prepared on a going concern basis

ACTIVITIES AND BUSINESS REVIEW (continued)

Other matters

The Company is funded by facilities from The Royal Bank of Scotland plc Bank Plc It seeks to minimise its exposure to external financial risks Further information on financial risk management policies and exposures is disclosed in Notes 3 and 31 It also has exposure to asset risk on the residual value of property, plant and equipment

SHARE CAPITAL

On 28 November 2008 a Special Resolution was passed which reduced the authorised share capital of the Company from £346,500,000 to £1,000,000 by way of cancellation of 1,205,139,838 issued ordinary shares of 25p each and the cancellation of 179,860,162 unissued ordinary shares of 25p each

On the same date an additional Special Resolution was passed to cancel the share premium account 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 2009 to date the following changes have taken place

Directors	Appointed	Resigned / Cessation of appointment
N Kapur	16 September 2009	1 February 2010
A D Barnard	1 February 2010	
A P Dickinson		9 June 2010
R M Priestman		28 June 2010

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

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)

DIRECTORS' INDEMNITIES

In terms of section 236 of the Companies Act 2006, Mr A P Dickinson had been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

CHARITABLE CONTRIBUTIONS

The total amount given for charitable purposes by the Company during the year ended 31 December 2009 was £100 (2008 £1,046)

The Company and its employees support a number of charitable events and initiatives organised by the Group The annual reports of The Royal Bank of Scotland Group plc disclose these on a group basis

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 and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting

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

A D Barnard
Director

Date 28 JUN 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOMBARD NORTH CENTRAL PLC

We have audited the financial statements of Lombard North Central PLC ('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 35 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's (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 LOMBARD NORTH CENTRAL (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

Kari Hale

Kari Hale (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

Date 28 June 2010

LOMBARD NORTH CENTRAL PLC

Company Registration No 00337004

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Note	2009 £m	2008 £m
Continuing operations			
Revenue	4	**356.7**	484 0
Depreciation on property, plant and equipment	19	**-**	(0 5)
Other operating income	5	**10.3**	11 2
Other operating charges	6	**(213.3)**	(258 8)
Operating profit		**153.7**	235 9
Investment revenues	8	**133.8**	50 8
Other (losses)/gains		**(18.9)**	16 0
Impairment of investment in subsidiary undertakings	16	**(42.2)**	(12 9)
Impairment of investment in associate undertakings	17	**-**	(4 4)
Finance income	9	**11.8**	67 2
Finance costs	10	**(229.6)**	(341 9)
Profit before tax		**8.6**	10 7
Tax	11	**23.3**	11 3
Profit for the year	12	**31.9**	22 0
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year attributable to the equity holders of the Company	30	**31.9**	22 0

The notes on pages 12 to 39 form a part of these financial statements

LOMBARD NORTH CENTRAL PLC

Company Registration No 00337004

BALANCE SHEET
at 31 December 2009

	Note	2009 £m	2008 £m
Non-current assets			
Hire purchase receivables	14	**2,381.2**	2,867 7
Loans and receivables	15	**764.4**	553 9
Investment in subsidiary undertakings	16	**214 0**	216 4
Investment in associates	17	**3.7**	3 7
Other investments	18	**2.0**	2 0
Property, plant and equipment	19	**0.2**	0 2
Deferred tax assets	20	**3.6**	2 3
Derivatives at fair value	21	**0.1**	18 2
		3,369.2	3,664 4
Current assets			
Cash and cash equivalents	22	**6 9**	14 5
Hire purchase receivables	14	**1,577.0**	1,532 6
Loans and receivables	15	**1,946.1**	2,092 1
Trade and other receivables	23	**57.0**	54 3
		3,587.0	3,693 5
Total assets		**6,956.2**	7,357 9
Non-current liabilities			
Other financial liabilities	25	**-**	105 6
Current liabilities			
Overdrafts	22	**7.2**	2 2
Other financial liabilities	25	**-**	2 6
Amounts owed to group undertakings	26	**6,847.0**	7,201 1
Trade and other payables	27	**56.5**	32 7
Derivatives at fair value	21	**0.1**	0 2
		6,910.8	7,238 8
Total liabilities		**6,910.8**	7,344 4
Net assets		**45.4**	13 5
Equity			
Share capital	29	**1.0**	1 0
Reserves	30	**44.4**	12 5
Total equity attributable to the equity holders of the Company		**45.4**	13 5

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

A D Barnard

A D Barnard
Director

The notes on pages 12 to 39 form a part of these financial statements

LOMBARD NORTH CENTRAL PLC

Company Registration No 00337004

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

	Note	Share capital £m	Share premium £m	Special reserve £m	Retained earnings £m	Total equity £m
At 1 January 2008		302 3	47 9	2 6	72 9	425 7
Total comprehensive income for the year		-	-	-	22 0	22 0
Cancellation		(301 3)	(47 9)	-	-	(349 2)
Dividends paid	13	-	-	-	(85 0)	(85 0)
At 31 December 2008		1 0	-	2 6	9 9	13 5
At 1 January 2009		1 0	-	2 6	9 9	13 5
Total comprehensive income for the year		-	-	-	31 9	31 9
At 31 December 2009		**1.0**	**-**	**2.6**	**41.8**	**45.4**

The notes on pages 12 to 39 form a part of these financial statements

LOMBARD NORTH CENTRAL PLC

Company Registration No 00337004

CASH FLOW STATEMENT
for the year ended 31 December 2008

	Note	2009 £m	2008 £m
Operating activities			
Profit before tax		**8.6**	10 7
Adjustments for			
Depreciation on property, plant and equipment	19	**-**	0 5
Foreign exchange (gains)/losses	12	**(14.1)**	42 3
Loss on disposal of property, plant and equipment	12	**-**	0 1
Investment revenues	8	**(133.8)**	(50 8)
Impairment of investments	16,17	**42.2**	17 3
Finance income	9	**(11.8)**	(67 2)
Finance costs	10	**229.6**	341 9
Operating profit before changes in working capital		**120.7**	294 8
Decrease/(increase) in hire purchase receivables		**442.8**	(306 3)
Increase in other instalment credit receivables		**(162.7)**	(183 8)
(Increase)/decrease in trade and other receivables		**(2.7)**	8 8
Increase/(decrease) in amounts owed to group undertakings		**201.4**	(140 8)
Increase/(decrease) in trade and other payables		**26.4**	(10 2)
Movement in fair value of derivative financial instruments		**18.0**	(18 0)
Net cash from/(used in) the operations		**643.9**	(355 5)
Interest received		**12.2**	69 7
Interest paid		**(11.1)**	(19 0)
Net cash from/(used in) operating activities		**645.0**	(304 8)
Investing activities			
Proceeds from repayment of subsidiary capital	16	**0.2**	69 3
Dividends received	8	**133.8**	50 8
Acquisition of investments	16	**(40.0)**	(2 0)
Net cash from investing activities		**94.0**	118 1
Financing activities			
Proceeds from borrowings		**-**	984 5
Repayment of borrowings		**(501.4)**	-
Repayment of capital	29,30	**-**	(349 2)
Dividends paid	13	**-**	(85 0)
Interest paid		**(250.2)**	(340 9)
Net cash (used in)/from financing activities		**(751.6)**	209 4
Net (decrease)/increase in cash and cash equivalents		(12.6)	22 7
Cash and cash equivalents at 1 January		12.3	(10 4)
Cash and cash equivalents at 31 December	22	(0.3)	12 3

The notes on pages 12 to 39 form a part of these financial statements

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

1 General information

Lombard North Central PLC 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 lead to any changes in the Company's accounting policies, nor has it lead 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 7 (*revised 2009*)	*Financial Instruments Disclosures*
IFRS 8	*Operating Segments*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 14	*IAS 19 The Limit on a Defined Benefit Asset*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*

The adoption of these has not lead 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*)	*First-time Adoption of International Financial Reporting Standards*
IFRS 3 (*revised 2008*)	*Business Combinations*
IFRS 5 (*revised 2008*)	*Non-current Assets Held for Sale and Discontinued Operations*
IFRS 9	*Financial Instruments - Classification and Measurement*
IAS 24 (*revised 2009*)	*Related Party Disclosures - Revised definition of related parties*
IAS 27 (*amended*)	*Consolidated and Separate Financial Statements*
IAS 28 (*amended*)	*Investments in Associates*
IAS 31 (*amended*)	*Interests in Joint Ventures*
IAS 32 (*amended*)	*Financial Instruments Presentation*
IAS 39 (*amended*)	*Financial Instruments Recognition and Measurement*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRIC 18	*Transfers of a Foreign Operation*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
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 from hire purchase business and loans and receivables is recognised in accordance with the Company's policies on leases, hire purchase business and loans and receivables (see below)
Revenue arises in the United Kingdom from continuing activities

c. Leases

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

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

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

d. Hire purchase business

Hire purchase contracts are accounted for under IAS 17 Leases, 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 fulfilment of agreed conditions

Fee income and interest on hire purchase agreements are credited to profit or loss 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

3 Accounting policies (continued)

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 profit or loss 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

Fee income and interest on instalment credit agreements are credited to profit or loss in proportion to the balances outstanding

f. Investment in subsidiary and associated undertakings

A subsidiary is an undertaking in which the Company has a long-term interest and over which it exercises control An associate is an undertaking in which the Company has a long-term interest and over which it exercises significant influence

The Company's interests in subsidiary and associated undertakings are stated at cost less any impairment

g. Basis of consolidation

The Company is exempt from the requirement to prepare consolidated financial statements in accordance with s400 of the Companies Act 2006 as the Company is a wholly-owned subsidiary of The Royal Bank of Scotland plc and the Company's results are consolidated within the financial statements of this company These financial statements therefore present information about the Company as an individual entity and not about the group

h. Other investments

Other investments consist of a long-term interest in an unlisted investment This investment is stated at cost less any impairment

i. 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 profit or loss on a straight-line basis so as to write them down to their estimated residual value over their estimated useful lives, as follows

	Estimated useful life
Freehold buildings	50 years
Short leaseholds	unexpired periods
Equipment and vehicles	4-10 years
Operating lease assets	Term of contract

3 Accounting policies (continued)

j. Impairment of 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

k. 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 earnings 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

l. Derivatives

Derivative financial instruments are recognised initially, and subsequently measured, at fair value Derivative fair values are determined from quoted prices in active markets where available Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models

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

m. 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

n. 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 profit or loss when there is objective evidence that the asset is impaired

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

3 Accounting policies (continued)

o. Other financial liabilities

Other financial liabilities are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method

Finance costs incurred on other financial liabilities are recognised in profit or loss on an accruals basis

p. 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 profit or loss on an accruals basis

q. Trade and other payables

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

r. Retirement benefits

The Royal Bank of Scotland Group provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees The cost of defined benefit pension schemes and healthcare plans to the Royal Bank of Scotland Group is assessed by independent professionally qualified actuaries and recognised on a systematic basis over employees' service lives For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities Scheme assets are measured at their fair value Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit) The current service cost and any past service costs together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities is charged to operating expenses Actuarial gains and losses are recognised in full in the period in which they occur outside profit or loss and presented in other comprehensive income
There is no contractual agreement or policy on the way that the cost of Royal Bank of Scotland Group defined benefit pension schemes and healthcare plans are allocated to the Company It therefore accounts for the charges it incurs as payments to a defined contribution scheme

Contributions to defined contribution pension schemes are recognised in profit or loss when payable

3 Accounting policies (continued)

s. Other operating income

Other operating income is accounted for on an accruals basis

t 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 A 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

u. Investment revenues

Dividend income from investments in subsidiaries is recognised when the shareholders' rights to receive payments have been established

v. Foreign currencies

Transactions in foreign currencies are translated into sterling at the rates ruling at the date of the transaction
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Foreign exchange differences arising on translation are dealt with in profit or loss
Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction
Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined

w. 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

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

4 Revenue

	2009 £m	2008 £m
Hire purchase income	**266.8**	336 2
Other instalment credit income	**54.1**	61 7
Other revenue	**35.8**	86 1
	356.7	484 0

5 Other operating income

	2009 £m	2008 £m
Management fees	**9.7**	8 9
Other income	**0.6**	2 3
	10.3	11 2

6 Other operating charges

	2009 £m	2008 £m
Staff Costs.		
Wages and salaries	**42.9**	45 3
Social security costs	**4.2**	5 1
Pension costs	**5.7**	6 4
	52.8	56 8
Commission payable	**22.1**	22 1
Bad debt charge	**90.2**	80 6
Management fees	**39 4**	31 1
Intercompany loan waiver	**0.1**	7 9
Foreign exchange (gains)/losses	**(14.1)**	42 3
Redundancy costs	**4.4**	-
Other charges	**18.4**	18 0
	213.3	258 8

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows

	2009	2008
Sales and sales support	**879**	1,045
Central Functions	**41**	83
	920	1,128

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

7 Directors' emoluments

	2009 £	2008 £
Directors' fees, salaries and other benefits, excluding pension contributions	**772,850**	967,263
Performance related bonuses	**-**	-
	772,850	967,263
Pension contributions for 3 directors (2008 3 directors) in respect of defined benefit schemes	**71,350**	65,317

Executive directors participate in an annual bonus scheme, bonuses are generated on the basis of achievement against specific targets, which include corporate performance objectives and key strategic objectives Some of the directors are also directors of other companies within the group The emoluments of those directors are charged to the company for which they perform their main duties and therefore the disclosed charge represents the charge for directors whose main duties are performed in relation to this Company The total emoluments of the highest paid director were £334,384 (2008 £493,206) At 31 December 2009 the accrued pension of the highest paid director was £nil (2008 £nil)

8 Investment revenues

	2009 £m	2008 £m
Income from shares in group undertakings	**133.7**	50 4
Income from shares in associate undertakings	**0.1**	0 4
	133.8	50 8

9 Finance income

	2009 £m	2008 £m
On loans and receivables		
From group undertakings	**11.8**	67 2

10 Finance costs

	2009 £m	2008 £m
On loans and payables		
To group undertakings	**227.2**	341 9
Other	**2.4**	-
	229.6	341 9

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

11 Tax credit on profit before tax

A) Analysis of credit for the year

	2009	2008
	£m	£m
Current taxation		
Income tax credit for the year	**(21.9)**	(7 3)
Over provision in respect of prior periods	**(0.1)**	(2 0)
Current tax credit for the year	**(22.0)**	(9 3)
Deferred taxation		
Credit for the year	**(1.2)**	(2 0)
Over provision in respect of prior periods	**(0.1)**	-
	(1.3)	(2 0)
Tax credit for the year	**(23.3)**	(11 3)

B) Factors affecting the tax credit for the year

The actual tax credit differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2008 28 5%) as follows

	2009	2008
	£m	£m
Expected tax charge	**2.4**	3 0
Dividends receivable	**(37.5)**	(14 5)
Non-deductible items	**12.0**	14 4
Non-taxable items	**-**	(12 3)
Tax rate change	**-**	0 1
Adjustments in respect of prior periods	**(0.2)**	(2 0)
Actual tax credit	**(23.3)**	(11 3)

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

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

12 Profit for the year

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

	2009 £m	2008 £m
Foreign exchange (gains)/losses	(14.1)	42 3
Loss on disposal of property, plant and equipment	-	0 1
Auditors' remuneration		
Fees payable to the company's auditors for the audit of the company's annual accounts	0.4	0 3

Fees payable to the Company's auditors and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements of the parent company are required to disclose such fees on a consolidated basis

13 Dividends

	2009 £m	2008 £m
Final dividend paid £nil per ordinary share (2008 £0 07)	-	85 0

14 Hire purchase receivables

	Year in which receipt is expected			
	Within 1 year £m	Between 1 and 5 years £m	After 5 years £m	Total £m
2009				
Future minimum lease payments	1,957.8	2,506.2	94 5	4,558.5
Unearned finance income	(219.7)	(202.4)	(17.1)	(439 2)
Present value	1,738.1	2,303.8	77.4	4,119.3
Impairment provisions	(161.1)	-	-	(161.1)
Net carrying value	1,577.0	2,303.8	77.4	3,958.2
2008				
Future minimum lease payments	1,899 5	3,066 0	79 2	5,044 7
Unearned finance income	(256 5)	(273 4)	(4 1)	(534 0)
Present value	1,643 0	2,792 6	75 1	4,510 7
Impairment provisions	(110 4)	-	-	(110 4)
Net carrying value	1,532 6	2,792 6	75 1	4,400 3

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

14 Hire purchase receivables (continued)

The Company carries a portfolio of a number of fixed and variable rate hire purchase agreements, with carrying values of £2,397 3m and £1,560 9m respectively (2008 £2,658 3m and £1,742 0m respectively) which will fully mature within 11 years

The average effective interest rate in relation to hire purchase agreements approximates 7% (2008 8%)

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 (2008 none)

15 Loans and receivables

	2009	2008
	£m	£m
Non-current		
Net investment in instalment credit	**763.6**	552 8
Other loans and advances	**0.8**	1 1
	764.4	553 9
Current		
Net investment in instalment credit	**303.0**	412 9
Amounts owed by group undertakings	**1,219.9**	1,318 9
Other loans and advances	**423.2**	360 3
	1,946.1	2,092 1
Total	**2,710.5**	2,646 0

The average effective interest rate in relation to instalment credit agreements approximates 6% (2008 7%)
The average effective interest rate over amounts owed by group undertakings approximates 1% (2008 5%)

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

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

16 Investments in subsidiary undertakings

	2009 £m	2008 £m
Cost:		
At 1 January	**302.0**	371 3
Repayment of subsidiary capital	**(0.2)**	(69 3)
Capital contribution	**40.0**	-
At 31 December	**341.8**	302 0
Provisions:		
At 1 January	**(85.6)**	(72 7)
Impairment	**(42.2)**	(12 9)
At 31 December	**(127.8)**	(85 6)
Carrying Value:		
At 31 December	**214.0**	216 4

The principal subsidiaries of the Company, which have an accounting reference date of 31 December unless otherwise indicated, are

	Country of incorporation	Nature of business	Interest in ordinary share capital 2009 %	2008 %
Lombard Business Finance Limited **	Great Britain	Lease finance	**100**	100
Lombard Business Leasing Limited	Great Britain	Lease finance	**100**	100
Lombard Charterhire Limited	Great Britain	Lease finance	**100**	100
Lombard Corporate Finance (1) Limited **	Great Britain	Lease finance	**100**	100
Lombard Corporate Finance (3) Limited	Great Britain	Lease finance	**100**	100
Lombard Corporate Finance (4) Limited *	Great Britain	Lease finance	**100**	100
Lombard Corporate Finance (5) Limited ***	Great Britain	Lease finance	**100**	100
Lombard Discount Limited	Great Britain	Lease finance	**100**	100
Lombard Finance Limited **	Great Britain	Lease finance	**100**	100
Lombard Finance (CI) Limited **	Jersey	Finance	**100**	100
Lombard Global Finance Company *	Ireland	Lease finance	**100**	100
Lombard Initial Leasing Limited *	Great Britain	Lease finance	**100**	100
Lombard Ireland Group Holdings **	Ireland	Holding company	**100**	100
Lombard Leasing Contracts Limited *	Great Britain	Lease finance	**100**	100
Lombard Lessors Limited *	Great Britain	Lease finance	**100**	100
Lombard Maritime Limited ***	Great Britain	Lease finance	**100**	100
Lombard North Central Leasing Limited ***	Great Britain	Lease finance	**100**	100
Lombard Property Facilities Limited *	Great Britain	Property finance	**100**	100
Lombard Property Investments Limited *	Great Britain	Property finance	**100**	100
Lombard & Ulster Limited	Great Britain	Finance	**100**	100
Lombard Technology Services Limited	Great Britain	Lease finance	**100**	100

(Continued on the next page)

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

16 Investments in subsidiary undertakings (continued)

	Country of incorporation	Nature of business	Interest in ordinary share capital 2009 %	2008 %
Lombard Vehicle Management Limited ***	Great Britain	Vehicle contract hire	**100**	100
Lombard Vehicle Management (1) Limited	Great Britain	Vehicle contract hire	**100**	100
Lombard Vehicle Management (2) Limited *	Great Britain	Vehicle contract hire	**100**	100
Lombard Vehicle Management (3) Limited **	Great Britain	Vehicle contract hire	**100**	100
Lombard Venture Finance Limited	Great Britain	Lease finance	**100**	100
RoyScot Trust plc	Great Britain	Finance	**100**	100

Accounting reference date * 31 March ** 30 June *** 30 September

The companies incorporated in Great Britain are all registered in England and Wales

17 Investments in associates

	Carrying value 2009 £m	2008 £m
Cost :		
At 1 January and at 31 December	**8.1**	8 1
Provisions:		
At 1 January	**(4.4)**	-
Impairment	**-**	(4 4)
At 31 December	**(4.4)**	(4 4)
Carrying Value:		
At 31 December	**3.7**	3 7

The principal associate of the Company, which is incorporated in Great Britain, registered in England and Wales and has an accounting reference date of 31 December, is

	Nature of business	Interest in ordinary share capital 2009 %	2008 %
Lombard GATX Holdings Limited	Management activities of holding company	**50**	50

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

18 Other investments

	2009 **£m**	2008 £m
Cost and carrying value:		
Unlisted investments	**2.0**	2 0

The fair value of these investments is considered to be not materially different to the carrying value

19 Property, plant and equipment

	Land and buildings £m	Short leasehold £m	Equipment and vehicles £m	Total £m
Cost				
1 January 2009 and 31 December 2009	-	0 4	3 5	3 9
Accumulated depreciation and impairment				
1 January 2009 and 31 December 2009	-	0 2	3 5	3 7
Cost				
1 January 2008	0 2	0 4	3 5	4 1
Disposals	(0 2)	-	-	(0 2)
31 December 2008	-	0 4	3 5	3 9
Accumulated depreciation and impairment				
1 January 2008	0 1	0 2	3 0	3 3
Depreciation charge	-	-	0 5	0 5
Disposals	(0 1)	-	-	(0 1)
31 December 2008	-	0 2	3 5	3 7
Net book value				
31 December 2009	-	**0.2**	-	**0.2**
31 December 2008	-	0 2	-	0 2

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

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

20 Deferred taxation

Provision for deferred taxation has been made as follows

	Pension £m	Accelerated capital allowances £m	Employee Bonus / reward £m	Other £m	Total £m
At 1 January 2008	(0 1)	0 4	-	-	0 3
Charge to statement of comprehensive income	0 2	(0 3)	1 8	0 3	2 0
At 31 December 2008	0 1	0 1	1 8	0 3	2 3
At 1 January 2009	0 1	0 1	1 8	0 3	2 3
Charge to statement of comprehensive income	(0 1)	-	1 6	(0 2)	1 3
At 31 December 2009	**-**	**0.1**	**3.4**	**0.1**	**3.6**

21 Derivatives at fair value

The Company enters into various financial instruments (derivatives) as principal to manage foreign exchange risk Derivatives include swaps and forwards

A swap is an agreement to exchange cash flows in the future in accordance with a pre-arranged formula In currency swap transactions, interest payment obligations are exchanged on assets and liabilities denominated in different currencies, the exchange of principal may be notional or actual A forward contract is a contract to buy (or sell) a specified amount of a physical or financial commodity, at an agreed price, on an agreed future date Forward foreign exchange contracts are contracts for the delayed delivery of currency on a specified future date

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

Notional principal amount	**2009 £m**	2008 £m
Exchange rate contracts		
Spot and forwards	**0.4**	1 0
Currency swaps	**-**	-
Interest rate contracts		
Interest rate swaps	**-**	107 6
	0.4	108 6

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

21 Derivatives at fair value (continued)

Fair value	2009		2008	
	Asset	Liability	Asset	Liability
	£m	£m	£m	£m
Spot and forwards	-	0.1	0 2	
Currency swaps	0.1	-		0 2
Interest rate swaps	-	-	18 0	-
	0.1	0.1	18 2	0 2

22 Cash and cash equivalents

	2009	2008
	£m	£m
Cash and cash equivalents per balance sheet		
Amounts held with group undertakings	6.9	14 5
Overdrafts per balance sheet		
Amounts held with group undertakings	(7.2)	(2 2)
Cash and cash equivalents per cash flow statement	(0.3)	12 3

23 Trade and other receivables

	2009	2008
	£m	£m
Trade receivables	0.2	0 3
Other receivables	34.9	15 5
Prepayments and accrued income	21.9	38 5
	57.0	54 3

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

24 Subordinated loan stock

	2009	2008
	£m	£m
Unsecured subordinated guaranteed loan notes:		
Principal value	21.2	21 2
Provisions for impairment	(21.2)	(21 2)
Carrying Value	-	-

24 Subordinated loan stock (continued)

In 2005 the company received £30m of unsecured subordinated guaranteed loan notes as a part of the consideration upon the disposal of Dixon Motors Limited (formerly Dixon Motors PLC) In 2006 £8 8m was settled and the remaining £21 2m has been provided for impairment
Interest is receivable on the loan notes at the rate of 12% This has not been recognised in the financial statements due to the full impairment of the loan notes

25 Other financial liabilities

	2009 £m	2008 £m
Non-current liabilities		
Amounts due in more than 5 years	-	89 1
Amounts due between 2 and 5 years	-	16 4
Amounts due between 1 and 2 years	-	0 1
	-	105 6
Current liabilities		
Amounts due within 1 year	-	2 6
	-	108 2

The fair value of amounts owed to group undertakings is considered not to be materially different to the carrying amounts in the balance sheet
These liabilities were settled in full during the year

26 Amounts owed to group undertakings

	2009 £m	2008 £m
Current liabilities		
Amounts due within 1 year	**6,847.0**	7,201 1

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 approximates 3 5% (2008 5%)

27 Trade and other payables

	2009 £m	2008 £m
Current liabilities		
Other payables	**1.9**	4 0
Accruals and deferred income	**54.6**	28 7
	56.5	32 7

The fair value of trade payables is considered not to be materially different to the carrying amounts in the balance sheet

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

28 Retirement benefit schemes

Disclosures in respect of the RBS Group Pension arrangements

The Group sponsors a number of pension schemes in the UK and overseas, predominantly defined benefit schemes, whose assets are independent of the Group's finances The Group's defined benefit schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years Employees do not make contributions for basic pensions but may make voluntary contributions to secure additional benefits on a money-purchase basis Since October 2006 The Royal Bank of Scotland Group Pension Fund ('Main Scheme') has been closed to new entrants
The Group also provides other post-retirement benefits, principally through subscriptions to private healthcare schemes in the UK and unfunded post retirement plan benefits
The Group recognises the costs of these benefits in the income statement over the average remaining future service lives of the eligible employees

Interim valuations of the Main Scheme under IAS 19 'Employee Benefits' were prepared to 31 December with the support of independent actuaries, using the following assumptions

	2009	2008	2007
Principal actuarial assumptions			
	%	%	%
Discount rate	**5.9**	6 5	6 0
Expected return on plan assets (weighted average)	**6.2**	7 1	6 9
Rate of increase in salaries (per annum)	**1.8**	4 0	4 5
Rate of increase in pensions payment (per annum)	**3.5**	2 7	3 2
Inflation assumption (per annum)	**3.5**	2 7	3 2
Major classes of plan assets as a percentage of total plan assets			
	%	%	%
Equities	**47.6**	59 4	61 0
Index-linked bonds	**23.7**	18 0	18 2
Government fixed interest bonds	**-**	1 2	1 2
Corporate and other bonds	**19.7**	18 5	15 1
Property	**3.5**	3 7	3 8
Cash and other assets	**5.5**	(0 8)	0 7
Total fair value of assets	**100.0**	100 0	100 0
Long term rates of return on the major classes of assets			
	%	%	%
Equities	**7.9**	8 4	8 1
Index-linked bonds	**4.5**	3 9	4 5
Government fixed interest bonds	**-**	3 9	4 5
Corporate and other bonds	**5.9**	6 1	5 5
Property	**6.2**	6 1	6 3
Cash and other assets	**0.5**	2 5	4 6

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

28 Retirement benefit schemes (continued)

Post-retirement mortality assumptions	**2009 (years)**	2008 (years)	2007 (years)
Longevity at age 60 for current pensioners			
Males	**27.1**	26 1	26 0
Females	**29.5**	26 9	26 8
Longevity at age 60 for future pensioners			
Males	**29.2**	28 1	28 1
Females	**30.8**	28 2	28 2

Movement in the Main Scheme deficit during the year

	2009			2008		
	Fair value of plan assets £m	**Present value of defined benefit obligations £m**	**Net £m**	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net £m
At 1 January	**14,804**	**15,594**	**790**	18,575	18,099	(476)
Income statement						
Expected return	**1,029**	**-**	**(1,029)**	1,271	-	(1,271)
Interest cost	**-**	**999**	**999**	-	1,080	1,080
Current service cost	**-**	**300**	**300**	-	437	437
Past service cost	**-**	**15**	**15**	-	21	21
Gains on curtailments	**-**	**(1,947)**	**(1,947)**	-	-	-
	1,029	**(633)**	**(1,662)**	1,271	1,538	267
Statement of comprehensive income						
Actuarial gains and losses	**993**	**4,473**	**3,480**	(4,784)	(3,389)	1,395
Contributions by employers	**536**	**-**	**(536)**	396	-	(396)
Contributions by plan participants and other scheme members	**2**	**2**	**-**	-	-	-
Benefits paid	**(741)**	**(741)**	**-**	(630)	(630)	-
Expenses included in service cost	**(20)**	**(20)**	**-**	(24)	(24)	-
At 31 December	**16,603**	**18,675**	**2,072**	14,804	15,594	790

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

28 Retirement benefit schemes (continued)

History of experience gains and losses

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
Present value of defined benefit obligations	**16,603**	14,804	18,575	17,374	15,914
Fair value of plan assets	**18,675**	15,594	18,099	19,004	19,118
Net deficit	**(2,072)**	(790)	476	(1,630)	(3,204)
Experience gains/(losses) on plan liabilities	**135**	(55)	(256)	(4)	(41)
Experience losses/(gains) on plan assets	**993**	(4,784)	163	552	1,556
Actual return on pension schemes assets	**2,022**	(3,513)	1,345	1,574	2,486

Curtailment gains of £1,947m have been recognised in 2009 arising from changes to pension benefits in the Main Scheme due to the capping of future salary increases that will count for pension purposes to the lower of 2% or the rate of inflation in any year

The Group expects to contribute £746m to the Main Scheme in 2010

The amount of accrued contributions at 31 December 2009 in the Company in respect of the Main Scheme was £nil (2008 £0 3m)

29 Share capital

	2009	2008
	£m	£m
Authorised:		
4,000,000 (2008 4,000,000) ordinary shares of 25p each	**1.0**	1 0
Allotted, called up and fully paid:		
4,000,000 (2008 4,000,000) ordinary shares of 25p each	**1.0**	1 0

On 28 November 2008 a Special Resolution was passed which reduced the authorised share capital of the Company from £346,500,000 to £1,000,000 by way of cancellation of 1,205,139,838 issued ordinary shares of 25p each and the cancellation of 176,860,162 unissued ordinary shares of 25p each

30 Reserves

	Share premium £m	Special reserve £m	Retained earnings £m	Total reserves £m
At 1 January 2008	47 9	2 6	72 9	123 4
Total comprehensive income for the year	-	-	22 0	22 0
Cancellation	(47 9)	-	-	(47 9)
Dividends	-	-	(85 0)	(85 0)
At 31 December 2008	-	2 6	9 9	12 5
At 1 January 2009	-	2 6	9 9	12 5
Total comprehensive income for the year	-	-	31 9	31 9
At 31 December 2009	**-**	**2.6**	**41.8**	**44.4**

On 28 November 2008 a Special Resolution was passed to cancel the share premium account of the Company

31 Financial instruments and risk management

Capital risk management

The Company considers its capital to consist of equity attributable to the equity holders of the Company, comprising issued share capital, reserves and retained earnings as disclosed in notes 29 and 30 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

31 Financial instruments and risk management (continued)

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 £m	2008 £m
Financial assets		
Fair value through profit and loss (FVTPL)		
Designated as FVTPL	**0.1**	18 2
Loans and receivables	**6,675.8**	7,061 1
	6,675.9	7,079 3
Non financial assets	**280.3**	278 6
	6,956.2	7,357 9
Financial liabilities		
Fair value through profit and loss (FVTPL)		
Designated as FVTPL	**0.1**	0 2
Amortised cost	**6,854.2**	7,311 5
	6,854.3	7,311 7
Non financial liabilities	**56.5**	32 7
	6,910.8	7,344 4

Valuation of financial instruments designated as FVTPL

Financial assets and liabilities designated as fair value through profit and loss comprise derivatives Derivatives are priced using quoted prices for the same or similar instruments where these are available Where such prices are not available derivatives are valued using pricing models Inputs for these models are observed directly in the market, or derived from observed prices

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 £m	Level 2 £m	Level 3 £m	Total £m
2009				
Derivative financial assets	-	0 1	-	**0.1**
Derivative financial liabilities	-	0 1	-	**0.1**
2008				
Derivative financial assets	-	18 2	-	**18.2**
Derivative financial liabilities	-	0 2	-	**0.2**

31 Financial instruments and risk management (continued)

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

Hire purchase receivables and other instalment credit 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 on the next page has been determined based on the exposure to interest rates at the balance sheet date The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year

If interest rates had been 0 5% higher and all other variables were held constant, the Company's profit before tax for the year would have decreased by £15 6m (2008 profit before tax for the year would have decreased by £20 0m) This is mainly due to the Company's exposure to interest rates on its variable rate borrowings There would be no other material impact on equity

Currency risk

The Company does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in overseas subsidiary operations and their currency funding Exposures arising from changes in net foreign currency investments are subject to regular review It is the Company's policy to match fund the structural foreign currency exposure arising from net asset value with borrowings in the same currency

The Company undertakes certain transactions denominated in foreign currencies, hence exchange rate fluctuations arise The Company's policy is normally to match foreign currency receivables with borrowings in the same currency

The Company enters into various off-balance sheet financial instruments (derivatives) as principal to manage foreign exchange risk Details of these are described in note 21

31 Financial instruments and risk management (continued)

Currency risk (continued)

The Company is mainly exposed to Euro and US dollar currencies

The sensitivity analysis below has been determined based on the foreign currency exposure 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

The following table details the currencies to which the Company is mainly exposed and the increase/(decrease) to the Company's profit before tax for the year if the rate of sterling against foreign currencies had been 10% higher and all other variables were held constant

	2009	2008
	£m	£m
Euro	**9.3**	16 9
US Dollar	**(0.8)**	-

The impact on profit before tax from the Company's exposure to the Euro is mainly due to the Company's gap between its foreign currency lending and its foreign currency borrowings
The impact on profit before tax from the Company's exposure to the US Dollar is mainly due to the Company's gap between its foreign currency lending and its foreign currency borrowings
There would be no other impact on equity

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

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	Impairment provision	Total
	AQ1 to 3	AQ4	AQ5				
	£m	£m	£m	£m	£m	£m	£m
2009							
Cash and cash equivalents	**6.9**	**-**	**-**	**-**	**-**	**-**	**6.9**
Hire purchase receivables	**2,306.6**	**1,275.2**	**185.2**	**42.5**	**309.8**	**(161.1)**	**3,958.2**
Loans and receivables	**2,340.1**	**323.9**	**29.9**	**6.8**	**37.4**	**(27.6)**	**2,710.5**
Trade receivables	**-**	**-**	**-**	**-**	**0.2**	**-**	**0.2**
Derivatives	**0.1**	**-**	**-**	**-**	**-**	**-**	**0.1**
	4,653.7	**1,599.1**	**215 1**	**49.3**	**347.4**	**(188.7)**	**6,675.9**

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

31 Financial instruments and risk management (continued)

Credit risk (continued)

	Analysis of credit quality by quality grade			Accruing past	Non	Impair-ment	
	AQ1 to 3	AQ4	AQ5	due	accrual	provision	Total
	£m	£m	£m	£m	£m	£m	£m
2008							
Cash and cash equivalents	14 5	-	-	-	-	-	14 5
Hire purchase receivables	2,562 8	1,471 8	206 5	58 9	210 7	(110 4)	4,400 3
Loans and receivables	2,345 7	266 3	24 6	9 0	28 5	(28 1)	2,646 0
Trade receivables	-	-	-	-	0 3	-	0 3
Derivatives	18 2	-	-	-	-	-	18 2
	4,941 2	1,738 1	231 1	67 9	239 5	(138 5)	7,079 3

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%

Analysis of assets accruing past due

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

Past due	1-29 days	30-59 days	60-89 days	more than 90 days	Total
	£m	£m	£m	£m	£m
2009					
Hire purchase receivables	**17.1**	**13.0**	**12.4**	**-**	**42.5**
Loans and receivables	**2.7**	**2.1**	**2.0**	**-**	**6.8**
	19.8	**15.1**	**14.4**	**-**	**49.3**
2008					
Hire purchase receivables	44 0	7 5	7 4	-	58 9
Loans and receivables	6 8	1 1	1 1	-	9 0
	50 8	8 6	8 5	-	67 9

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

31 Financial instruments and risk management (continued)

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 25 and 26
The Company has no significant liquidity risk as it has access to financing facilities and support provided by fellow group companies

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

32 Capital commitments

The table below gives the nominal principal amounts of off-balance sheet commitments

	2009 Principal amount £m	2008 Principal amount £m
Commitments to lend over 1 year	**41.4**	41 3

These transactions, which have been entered into on behalf of customers and group companies, and for which there are corresponding obligations by customers, are not included in the company's balance sheet

33 Contingent liabilities

The Company has disposed of a number of subsidiaries in recent years Certain of the respective sale and purchase agreements make provision for potential claims to arise under specific warranty clauses, the agreements set out formal procedures to determine any ultimate liabilities arising In the opinion of the directors, there is no expectation of any unprovided material liability crystallising as a consequence of the disposal of former subsidiaries

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

34 Post balance sheet events

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

35 Related parties

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

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland Its immediate parent company is The Royal Bank of Scotland plc which is incorporated in Great Britain and registered in Scotland

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

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 2009 is impractical

Balances with the UK Government and affiliated bodies were

	31 December 2009 £m	31 December 2008 £m
Local Government	**50.7**	52 4
Public corporations	**0.6**	1 5
	51.3	53 9

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

35 Related parties (continued)

Related party transactions with group undertakings

The table below details balances and transactions with group undertakings

	At 1 January 2009 £m	Net (receipts) / payments £m	Net interest (paid) / received £m	At 31 December 2009 £m
Banking members of the group				
Immediate parent	(7,028.5)	487.0	(225.6)	(6,767.1)
Other RBS Group undertakings	(34.4)	93.0	(1.0)	57.6
Other members of the group				
Subsidiaries	1,156.7	(129.8)	11.3	1,038.2
Associates	(7.5)	(0.8)	(0.1)	(8.4)
Other RBS Group undertakings	43.8	8.5	-	52.3
Total	**(5,869.9)**	**457.9**	**(215.4)**	**(5,627.4)**

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

Other related party transactions

Expenses of £39 4m (2008 £31 1m) were paid by other members of the group and then recharged to the Company by way of management charges

Expenses of £9 7m (2008 £8 9m) were incurred by the Company and then recharged to other members of the group by way of management charges

Directors' emoluments are disclosed in note 7

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