Company Registered No: 02060602

LOMBARD LEASING CONTRACTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	S J Caterer J E Rogers P D J Sullivan R F Warren
SECRETARY:	C J Whittaker
REGISTERED OFFICE:	1 Princes Street London EC2R 8PB
AUDITOR:	Deloitte LLP 3 Rivergate Temple Quay Bristol BS1 6GD

Registered in England and Wales.

The directors present their report and the audited financial statements for the year ended 31 March 2011

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the company continues to be the provision of fixed asset finance usually involving individually structured facilities

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

Review of the year

Business review

The directors are satisfied with the company's performance in the year The company will be guided by its shareholders in seeking further opportunities for growth Post balance sheet events are described in note 26 to the financial statements

Financial performance

The company's financial performance is presented in the statement of comprehensive income

Revenue fell by £2,647,000 (2010 increased by £6,468,000) and expenses fell by £453,000 (2010 £1,384,000) The profit for the year was £7,814,000 (2010 £6,111,000), an increase of 28% over 2010

A final dividend of £7,000,000 was paid during the year (2010 £3,000,000)

At the end of the year, the balance sheet showed total assets of £198,886,000 (2010 £199,386,000), including income-generating assets comprising property, plant and equipment with a net book value of £183,049,000 (2010 £194,370,000) Total equity was £7,761,100 (2010 £6,947,100)

Principal risks and uncertainties

The company is funded by facilities from The Royal Bank of Scotland plc

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 23 to these financial statements

The company seeks to minimise its exposure to external financial risks other than equity and credit risk, further information on financial risk management policies and exposures is disclosed in notes 1 and 23 It also has exposure to asset risk on the residual value of property, plant and equipment (for more details see note 12)

Going concern

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

DIRECTORS AND SECRETARY

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

AUDITOR

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

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

S J Caterer
Director
Date **22 August 2011**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD LEASING CONTRACTS LIMITED

We have audited the financial statements of Lombard Leasing Contracts Limited ('the company') for the year ended 31 March 2011 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 27 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all of the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD LEASING CONTRACTS 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

Simon Cleveland FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
Date

23rd August 2011

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2011

Continuing operations	**Notes**	**2011 £'000**	2010 £'000
Revenue	**3**	**29,959**	32,606
Cost of sales		**(11,321)**	(11,742)
Operating income	**4**	**100**	765
Operating expenses	**5**	**(165)**	(197)
Operating profit		**18,573**	21,432
Finance income	**6**	**-**	661
Finance costs	**7**	**(12,208)**	(13,605)
Profit before tax	**8**	**6,365**	8,488
Tax credit/(charge)	**9**	**1,449**	(2,377)
Profit and total comprehensive income for the year		**7,814**	6,111

The accompanying notes form an integral part of these financial statements

LOMBARD LEASING CONTRACTS LIMITED 02060602

BALANCE SHEET
as at 31 March 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Property, plant and equipment	11	183,049	194,370
Current assets			
Loans and receivables	13	14,474	4,262
Trade and other receivables	14	414	346
Prepayments, accrued income and other assets	15	281	408
Cash	16	668	-
		15,837	5,016
Total assets		198,886	199,386
Current liabilities			
Borrowings from group undertakings	17	35,367	9,096
Trade and other payables	18	2,494	2,048
Accruals, deferred income and other liabilities	19	2,907	4,154
		40,768	15,298
Non-current liabilities			
Borrowings from group undertakings	17	86,831	107,181
Deferred tax liability	20	42,002	48,436
Provisions	21	21,524	21,524
		150,357	177,141
Total liabilities		191,125	192,439
Equity			
Share capital	23	-	-
Retained earnings		7,761	6,947
Total equity		7,761	6,947
Total liabilities and equity		198,886	199,386

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors on 22 August 2011 and signed on its behalf by

S J Caterer
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2011

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 April 2009	-	3,836	3,836
Profit for the year	-	6,111	6,111
Dividends paid (note 10)	-	(3,000)	(3,000)
At 31 March 2010	-	6,947	6,947
Profit for the year	-	**7,814**	**7,814**
Dividends paid (note 10)	-	**(7,000)**	**(7,000)**
At 31 March 2011	-	**7,761**	**7,761**

Total comprehensive income for the year of £7,814,000 (2010 £6,111,000) was wholly attributable to the owners of the company

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENT
for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Operating activities			
Profit for the year before tax		**6,365**	8,488
Adjustments for:			
Depreciation		**11,321**	11,742
Finance costs		**12,208**	13,605
Finance income		**-**	(661)
Operating cash flows before movements in working capital		**29,894**	33,174
Decrease/(increase) in loans and receivables		**1,012**	(1,012)
Increase in trade and other receivables		**(69)**	(47)
Decrease in prepayments, accrued income and other assets		**127**	31,827
Increase in trade and other payables		**446**	101
Increase in provisions		**-**	1,743
Increase/(decrease) in accruals, deferred income and other liabilities		**71**	(53)
Net cash from operating activities before tax		**31,481**	65,733
Tax paid to group undertakings – fellow subsidiary company		**(6,246)**	(10,548)
Net cash flows from operating activities		**25,235**	55,185
Cash flows from investing activities			
Purchases of property, plant and equipment		**-**	(4,595)
Net cash flows used in investing activities		**-**	(4,595)

CASH FLOW STATEMENT- Continued
for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Cash flows from financing activities			
Proceeds from new loans		**5,923**	-
Repayment of borrowings		**-**	(35,184)
Interest paid to group undertakings - fellow subsidiary company		**(12,264)**	(13,117)
Dividends paid to group undertakings – immediate parent company	**10**	**(7,000)**	(3,000)
Net cash flows from financing activities		**(13,341)**	(51,301)
Net increase/(decrease) in cash and cash equivalents		**11,894**	(711)
Cash and cash equivalents at beginning of year		**3,248**	3,959
Cash and cash equivalents at end of year	**17**	**15,142**	3,248

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Presentation of accounts

The accounts are prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS)

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

The accounts are prepared on the historical cost basis

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

Adoption of new and revised standards

There are a number of changes to IFRS that were effective from 1 April 2010 They have had no material effect on the company's financial statements for the year ended 31 March 2011

b) Foreign currencies

The company's financial statements are presented in sterling which is the functional currency of the company

c) Revenue recognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

d) 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 company

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

e) Property, plant and equipment

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

Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives

The depreciable amount is the cost of an asset less its residual value Land is not depreciated Estimated useful lives are as follows

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

f) Leases

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

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

Operating lease assets are included within property, plant and equipment and depreciated over their useful lives (see note 12)

g) Provisions

The company recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably

NOTES TO THE FINANCIAL STATEMENTS (continued)

h) Financial assets

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

Loans and receivables

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

Available-for-sale

Financial assets that are not classified as held-to-maturity, held-for-trading, designated as at fair value through profit or loss, or loans and receivables, are classified as available-for-sale Financial assets can be designated as available-for-sale on initial recognition Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs They are subsequently measured at fair value

i) Financial liabilities

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

Amortised cost

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

j) Cash and cash equivalents

Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value

k) Accounting developments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

k) Accounting developments - continued

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

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

The IASB issued 'Disclosures - Transfers of Financial Assets' (Amendments to IFRS 7) in October 2010 to extend the standard's disclosure requirements about derecognition to align with US GAAP The revisions are effective for annual periods beginning on or after 1 July 2011 and will not affect the financial position or reported performance of the company

The International Financial Reporting Interpretations Committee issued interpretation IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' in December 2009 The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments The interpretation, effective for the company for annual periods beginning on or after 1 January 2011, is not expected to have a material effect on the company

2. Critical accounting policies and key sources of estimation uncertainty

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

Leased assets
The judgements and assumptions involved in the Company's accounting policies which have the most significant effect on the amounts recognised in the financial statements are those that relate to the criteria for assessing whether substantially all the significant risks and rewards of ownership of leased assets are transferred to other entities

3. Revenue

	2011 £'000	2010 £'000
Finance lease income		
Rents receivable	63	587
Operating lease rental income	23,622	24,888
Operating lease contingent rental income	6,274	7,131
	29,959	32,606

Capital costs of operating lease additions financed during the year were £nil (2010 £4,595,000)

The company did not enter into any new leasing transactions (2010 none) during the year

4. Operating income

	2011 £'000	2010 £'000
Profit on disposal of leases	-	590
Other income	100	175
	100	765

5. Operating expenses

	2011 £'000	2010 £'000
Fees and commissions	153	184
Management fees	12	13
	165	197

Staff costs, number of employees and directors' emoluments

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

Management recharge

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

6. Finance income

	2011 £'000	2010 £'000
On loans and receivables		
From group undertakings – fellow subsidiary company	-	661

7. Finance costs

	2011 £'000	2010 £'000
Interest on loans from group undertakings – fellow subsidiary company	12,208	13,605

8. Profit before tax

Profit before tax is stated after charging

	2011 £'000	2010 £'000
Depreciation	11,321	11,742
Auditor's remuneration – audit services included in the management fee shown in note 5	5	5

9. Tax

	2011 £'000	2010 £'000
Current taxation		
UK corporation tax charge for the year	4,985	12,490
Deferred taxation		
Credit for the year	(3,060)	(10,113)
Impact of rate change from 28% to 26%	(3,374)	-
	(6,434)	(10,113)
Tax (credit)/charge for the year	(1,449)	2,377

The actual tax (credit)/charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2010 standard tax rate 28%) as follows

	2011 £'000	2010 £'000
Expected tax charge	1,782	2,377
Reduction in deferred tax following change in rate of UK corporation tax	(3,231)	-
Actual tax (credit)/charge for the year	(1,449)	2,377

9. Tax - continued

In the Budget on 22 June 2010, the UK Government proposed, amongst other things, to reduce the UK Corporation Tax of 28% in four annual decrements of 1% with effect from 1 April 2011 and to reduce certain rates of capital allowances An additional 1% decrement was announced by the UK Government in the Budget on 23 March 2011 The first 1% decrement was enacted on 27 July 2010, the second on 29 March 2011 and the third, together with the capital allowance rate changes, on 5 July 2011 Existing temporary differences may therefore unwind in periods subject to these reduced tax rates Accordingly, the closing deferred tax assets and liabilities have been calculated at the rate of 26%

The impact of the post-balance sheet date changes in tax rate are estimated as giving rise to a tax credit of £1,615,000, which will be recognised in the accounts for 2012

10. Ordinary dividends

	2011	2010
	£'000	£'000
Dividend paid to group undertakings – immediate parent company	**7,000**	3,000

11. Property, plant and equipment

2011	**Assets held for use in operating leases £'000**
Cost	
1 April 2010	**287,460**
31 March 2011	**287,460**
Accumulated depreciation and impairment	
1 April 2010	**93,090**
Depreciation charge for the year	**11,321**
31 March 2011	**104,411**

2010	
Cost	
1 April 2009	282,865
Additions	4,595
31 March 2010	287,460

11. Plant, property and equipment - continued

Accumulated depreciation and impairment	Assets held for use in operating leases £'000
1 April 2009	81,348
Depreciation charge for the year	11,742
31 March 2010	93,090
Net book value	
31 March 2011	**183,049**
31 March 2010	194,370

No property, plant and equipment has been pledged as security for liabilities of the company (2010 none)

12. Operating lease arrangements

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

	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
2011	**24,267**	**34,780**	**80**	**59,127**
2010	23,652	51,052	540	75,244

Nature of operating lease arrangements in the balance sheet:	**2011** £'000	2010 £'000
Transportation	**59,127**	75,244

Company as lessor

The company provides asset finance to its customers through acting as lessor It purchases assets

13. Loans and receivables

	2011 £'000	2010 £'000
Current		
Amounts owed by group undertakings - fellow subsidiaries	14,474	4,261
Other loans and advances	-	1
	14,474	4,262

The average effective interest rate over amounts owed by group undertakings approximates 0 6% (2010 0 6%)

The average effective interest rate in relation to other loans and advances approximates nil% (2010 nil%)

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

14. Trade and other receivables

	2011 £'000	2010 £'000
Other receivables	**414**	346

15. Prepayments, accrued income and other assets

	2011 £'000	2010 £'000
Accrued income	**281**	396
Other assets	-	12
	281	408

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Cash and cash equivalents

	2011 £'000	2010 £'000
Cash with group undertaking – fellow subsidiary company	**668**	-
Deposits with banks placed at within 3 months original maturity		
Group – fellow subsidiary company	**14,474**	3,250
Overdrafts		
Amounts owed to group banks	**-**	(2)
Cash and cash equivalents per cash flow statement	**15,142**	3,248

17. Borrowings

	2011 £'000	2010 £'000
Overdrafts from group banks – fellow subsidiary company	**-**	2
Loans from group banks – fellow subsidiary company	**122,198**	116,275
	122,198	116,277
Current	**35,367**	9,096
Non-current	**86,831**	107,181
	122,198	116,277

18. Trade and other payables

	2011 £'000	2010 £'000
Trade creditors	**120**	-
Other payables	**2,374**	2,048
	2,494	2,048

19. Accruals, deferred income and other liabilities

	2011 £'000	2010 £'000
Accruals owed to group undertakings – fellow subsidiary company	**551**	608
Group relief payable to group undertakings – fellow subsidiary company	**2,285**	3,546
Other liabilities - fellow subsidiary company	**71**	-
	2,907	4,154

20. Deferred tax

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

	Capital allowances £'000	Other £'000	Total £'000
At 1 April 2009	61,797	(3,248)	58,549
Credit to income	(9,106)	(1,007)	(10,113)
At 31 March 2010	52,691	(4,255)	48,436
Credit to income	**(5,916)**	**(518)**	**(6,434)**
At 31 March 2011	**46,775**	**(4,773)**	**42,002**

The Finance Act 2010 and The Provisional Collection of Taxes Act 1968 have reduced the corporation tax rate from 28% to 26% with effect from 1 April 2011 As a consequence the closing deferred tax liabilities have been recognised at an effective rate of 26% (2010 28%)

21. Provisions

	£'000
At 1 April 2009 and 31 March 2010	**21,524**
At 1 April 2010 and 31 March 2011	**21,524**

The provision represents the best estimate of the Company's liability under an upside sharing arrangement relating to an operating lease which is potentially payable from 2012

22. Financial instruments and risk management

(i) Categories of Financial instruments

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

The following table shows the carrying value and the fair value of financial instruments carried on the balance sheet where financial instruments are not carried at fair value on the balance sheet Where the financial instruments are of short maturity, the carrying value is equal to the fair value

The fair value of loans and receivables is estimated by discounting expected future cash flows using current interest rates and making adjustments for credit

All financial assets are classed as loans and receivables All financial liabilities are classed as amortised cost

23 Financial instruments and risk management – continued

	2011 Carrying value £'000	2011 Fair value £'000	2010 Carrying value £'000	2010 Fair value £'000
Financial liabilities				
Borrowings	122,198	131,964	116,277	125,446

(ii) Financial risk management

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

Interest rate risk

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

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

The following tables indicate financial assets and liabilities that are exposed to interest rate risk together with the corresponding range of applicable interest rates

The interest profile of the company's assets and liabilities is as follows

2011	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Loans and receivables	-	14,474	-	14,474
Trade and other receivables	-	-	414	414
Prepayments, accrued income and other assets	-	-	281	281
Cash	-	668	-	668
	-	15,142	695	15,837
Financial liabilities				
Borrowings from group undertakings	119,334	2,864	-	122,198
Trade and other payables	-	-	2,494	2,494
Accruals, deferred income and other liabilities	-	-	2,907	2,907
	119,334	2,864	5,401	127,599
Net financial assets/(liabilities)	(119,334)	12,278	(4,706)	(111,762)

23. Financial instruments and risk management - continued

2010	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Loans and receivables	-	3,250	1,012	4,262
Trade and other receivables	-	-	346	346
Prepayments, accrued income and other assets	-	-	408	408
	-	3,250	1,766	5,016
Financial liabilities				
Borrowings from group undertakings	113,411	2,866	-	116,277
Trade and other payables	-	-	2,048	2,048
Accruals, deferred income and other liabilities	-	-	4,154	4,154
	113,411	2,866	6,202	122,479
Net financial assets/(liabilities)	(113,411)	384	(4,436)	(117,463)

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% (2010 2%) higher and all other variables were held constant, the company's profit before tax for the year would have increased by £32,000 (2010 profit after tax for the year would have increased by £6,000) This is mainly due to the company's exposure to interest rates on its variable rate assets There would be no other material impact on equity

Currency risk

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

23. Financial instruments and risk management - continued

Credit risk

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

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

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

Credit risk

Maximum credit exposure and neither past due nor impaired

	2011	2010
	£'000	£'000
Trade and other receivables	**414**	346
Prepayments, accrued income and other assets	**281**	396
Group undertakings	**14,474**	4,274
Maximum credit exposure	**15,169**	5,016

Based on counterparty payment history the company considers all the above financial assets to be of good credit quality

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities

Management focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations It is undertaken within limits and other policy parameters set by Group Asset and Liability Management Committee (GALCO)

23. Financial instruments and risk management - continued

Financial Liabilities

The following table shows by contractual maturity the undiscounted cash flows payable from the balance sheet date including future interest payments

2011	0 – 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000
Borrowings from group undertakings	**3,773**	**37,819**	**91,372**	**3,205**
Trade and other payables	**2,494**	-	-	-
Accruals, deferred income and other liabilities	**2,907**	-	-	-
	9,174	**37,819**	**91,372**	**3,205**

2010	0 – 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000
Borrowings from group undertakings	3,474	12,042	49,227	72,707
Trade and other payables	2,048	-	-	-
Accruals, deferred income and other liabilities	4,154	-	-	-
	9,676	12,042	49,227	72,707

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

23. Share capital

		2011 £	2010 £
Authorised:			
100	Class A ordinary shares of £1	**100**	100
Allotted, called up and fully paid			
Equity shares			
100	Class A ordinary shares of £1	**100**	100

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

24. Capital resources

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

25. Related parties

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

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

As at 31 March 2011, 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

26. Post balance sheet events

On 29 June 2011, the company, together with other members of the RBSG group, became party to a capital support deed (CSD) Under the terms of the CSD, the company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares The amount of this obligation is limited to the company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the company's available resources) The CSD also provides that, in certain circumstances, funding received by the company from other parties to the CSD becomes immediately repayable, such repayment being limited to the company's available resources