Company Registered No: 02353835

NATWEST CORPORATE FINANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

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

Registered in England and Wales

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 30 June 2011

ACTIVITIES AND BUSINESS REVIEW

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

Activity

The principal activity of the company is the provision of 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 company currently has one active finance lease which is in its secondary period No rental was received during the year The company will be guided by its shareholder in seeking new opportunities for growth

The company made a loss after tax during the year as a result of the change in rates of corporation tax The directors are otherwise satisfied with the performance of the company

Financial performance

The retained loss for the year was £154,000 (2010 retained profit £57,000) and this was transferred from reserves The directors do not recommend that a dividend be paid (2010 £nil) The directors do not anticipate any material change in either the type or level of activities of the company

The company received a capital contribution of £5,000,000 (2010 £nil) on 24 November 2010 from its immediate parent company

Principal risks and uncertainties

The company is funded by facilities from The National Westminster Bank plc

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 14 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 14

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' REPORT (continued)

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

DIRECTORS' REPORT (continued)

AUDITOR
Deloitte LLP have expressed their 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 14 December 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATWEST CORPORATE FINANCE LIMITED

We have audited the financial statements of Natwest Corporate Finance Limited ('the company') for the year ended 30 June 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 18 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 30 June 2011 and of its loss 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 NATWEST CORPORATE FINANCE LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report

Simon Cleveland

Simon Cleveland FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
Date 15 December 2011

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2011

Continuing operations	Notes	2011 £'000	2010 £'000
Revenue	3	-	45
Operating income	5	-	2
Operating profit		-	47
Finance income	4	4	32
Profit before tax	6	4	79
Tax charge	7	(158)	(22)
(Loss)/profit and total comprehensive (loss)/income for the year		(154)	57

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
as at 30 June 2011

	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Deferred tax asset	13	**2,113**	2,731
Current assets			
Loan receivables	8	-	2,385
Prepayments, accrued income and other assets	9	**201**	-
		201	2,385
Total assets		**2,314**	5,116
Liabilities			
Current liabilities			
Borrowings from group undertakings	10	**147**	-
Trade and other payables	11	**1,910**	9,249
Accruals, deferred income and other liabilities	12	-	456
Total liabilities		**2,057**	9,705
Equity			
Share capital	15	-	-
Retained profit/(deficit)		**257**	(4,589)
Total equity/(deficit)		**257**	(4,589)
Total liabilities and equity		**2,314**	5,116

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors and authorised for issue on 14 December 2011 and signed on its behalf by

S J Caterer
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2011

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 July 2009	-	(4,646)	(4,646)
Profit for the year	-	57	57
At 30 June 2010	-	(4,589)	(4,589)
Loss for the year	-	**(154)**	**(154)**
Capital contribution	-	**5,000**	**5,000**
At 30 June 2011	-	**257**	**257**

Total comprehensive loss for the year of £154,000 (2010 income £57,000) 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 30 June 2011

	Notes	2011 £'000	2010 £'000
Operating activities			
Profit for the year before tax		**4**	79
Adjustments for:			
Finance income		**(4)**	(32)
Operating cash flows before movements in working capital		**-**	47
Decrease in loan receivables		**-**	2,119
(Decrease)/increase in trade and other payables		**(7,339)**	9,246
Net cash from operating activities before tax		**(7,339)**	11,412
Tax paid - fellow subsidiary company		**(197)**	(6,830)
Net cash flows (used by)/from operating activities		**(7,536)**	4,582
Cash flows from financing activities			
Repayment of borrowings		**-**	(4,326)
Capital contribution - immediate parent company		**5,000**	-
Interest received from group undertakings – immediate parent company		**4**	32
New loans raised		**147**	-
Net cash flows used by financing activities		**5,151**	(4,294)
Net (decrease)/increase in cash and cash equivalents		**(2,385)**	288
Cash and cash equivalents at beginning of year		**2,385**	2,097
Cash and cash equivalents at end of year	**8**	**-**	2,385

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 July 2010 They have had no material effect on the company's financial statements for the year ended 30 June 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 finance leases and loans and receivables is recognised in accordance with the company's policies on leases and loans and receivables (see below) Revenue arose in the United Kingdom from discontinued activities

Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment 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

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity 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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

e) Leases
Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer

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

f) 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

g) 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

h) 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

i) 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

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 an 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

The IASB issued IFRS 10 'Consolidated Financial Statements' in May 2011, it establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities IFRS 10 will supersede the current IAS 27 'Consolidated and Separate Financial Statements' and SIC 12 'Consolidation – Special Purpose Entities' A new IAS 27 'Separate Financial Statements' has been published The new IAS 27 now only contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in the parent company's separate financial statements

The IASB issued IFRS 11 'Joint Arrangements' in May 2011, it establishes the distinction between joint operations and joint ventures and the principles for financial reporting of them IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' There are some consequential changes to IAS 28 'Investments in Associates', which is renamed IAS 28 'Investments in Associates and Joint Ventures'

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

i) Accounting developments (continued)

The IASB issued IFRS 12 'Disclosure of Interests in Other Entities' in May 2011 IFRS 12 brings the disclosure requirements in consolidated financial statements for interests in subsidiaries, joint arrangements, associates and unconsolidated structures under one standard Disclosures required in separate financial statements are dealt with in IAS 27 Separate Financial Statements

IFRS 10, IFRS 11, & IFRS 12 as well revised IAS 27 and IAS 28 are effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted If adopted early all standards must be adopted together (IFRS 12 may be adopted early without having to adopt the other standards) None of these standards applies to the company

The IASB issued IFRS 13 'Fair Value Measurement' in May 2011, setting out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements IFRS 13 is effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted The company is assessing the impact of this standard

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 use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results

3. Revenue

	2011 £'000	2010 £'000
Finance lease income		
Rents receivable	-	10
Contingent rental income	-	35
	-	45

The company did not enter into any new leasing transactions during the year (2010 £nil)

The contingent rentals arose from termination charges to cover the difference in reinvestment revenues

4. Finance income

	2011 £'000	2010 £'000
On loan receivables		
From group undertakings – immediate parent company	4	32

5. Operating income

	2011 £'000	2010 £'000
Management fees	-	1
Other income	-	1
	-	2

6. Profit before tax

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

Costs incurred in respect of audit services to the company of £5,000 (2010 £5,000) were borne by the parent undertaking and not recharged to the company

7. Tax

	2011 £'000	2010 £'000
Current taxation		
UK corporation tax credit for the year	**(455)**	(434)
Over provision in respect of prior periods	**(5)**	-
	(460)	(434)
Deferred taxation		
Charge for the year	**431**	456
Impact of rate change from 28% to 26%	**187**	-
	618	456
Tax charge for the year	**158**	22

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 27 5% (2010 standard tax rate 28%) as follows

	2011 £'000	2010 £'000
Expected tax charge	**1**	22
Increase in deferred tax following change in rate of UK corporation tax	**170**	-
Adjustments in respect of prior periods	**(5)**	-
Other	**(8)**	-
Actual tax charge for the year	**158**	22

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. 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 liability has been calculated at the rate of 26%

The impact of the post-balance sheet date change in tax rate is estimated as giving rise to a tax charge of £81,000, which will be recognised in the accounts for 2012

8. Loan receivables

	2011 £'000	2010 £'000
Deposits with banks placed at within 3 months original maturity		
Group - immediate parent company	-	2,385

Total cash and cash equivalents per the cash flow statement is £nil (2010 £2,385)

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

9. Prepayments, accrued income and other assets

	2011 £'000	2010 £'000
Group relief receivable from group undertaking - fellow subsidiary company	201	-

10. Borrowings

	2011 £'000	2010 £'000
Loans from group undertakings - immediate parent company	147	-
Current	147	-
Non-current	-	-
	147	-

11. Trade and other payables

	2011 £'000	2010 £'000
Other payables due to group undertaking - immediate parent company	1,910	9,249

12. Accruals, deferred income and other liabilities

	2011 £'000	2010 £'000
Group relief payable – fellow subsidiary company	-	456

13. Deferred tax

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

	Capital allowances £'000	Embedded derivative £'000	Total £'000
At 1 July 2009	16	3,171	3,187
Credit to income	(4)	(452)	(456)
At 30 June 2010	12	2,719	2,731
Credit to income	**(3)**	**(615)**	**(618)**
At 30 June 2011	**9**	**2,104**	**2,113**

In respect of the lease terminated in 2010, an exchange agreement existed between the lessee and National Westminster Bank plc for each aircraft under lease whereby the Sterling payments under the lease were fulfilled in exchange for the lessee making payments in US dollars to National Westminster Bank plc as specified by the agreement

On early termination of the lease the balance payable by the lessee to the company was adjusted by an amount being the difference between the Sterling value of the amortised US dollar balance and the amortised Sterling account There is no formal agreement for this amount to be paid by National Westminster Bank plc to the company

This arrangement was treated as an embedded derivative and the gain in 2009 was set off by the loss on disposal of the associated lease in 2010

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments and risk management

(i) Categories of Financial instruments
There is no difference between the fair value of financial instruments carried on the balance sheet and their carrying value

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

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

2011	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets			
Prepayments, accrued income and other assets	-	201	201
	-	201	201
Financial liabilities			
Borrowings	147		147
Trade and other payables	-	1,910	1,910
	147	1,910	2,057
Net financial liabilities	(147)	(1,709)	(1,856)

2010	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets			
Loan receivables	2,385	-	2,385
	2,385	-	2,385
Financial liabilities			
Trade and other payables	-	9,249	9,249
Accruals and other liabilities	-	456	456
	-	9,705	9,705
Net financial assets/(liabilities)	2,385	(9,705)	(7,320)

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Interest rate risk (continued)

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 moved in equal instalments across the year

If interest rates had been 0 5% (2010 2%) higher and all other variables were held constant, there would have been no material impact on the company's profit before tax for the year (2010 profit after tax for the year would have increased by £48,000) This is mainly due to the company's exposure to interest rates on its variable rate deposits 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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Credit risk (continued)

Maximum credit exposure neither past due nor impaired

	2011 £'000	2010 £'000
Group undertakings – immediate parent company	-	2,385

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)

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**
Borrowings	**147**
Trade and other payables	**1,910**
	2,057

2010	**0 – 3 months £'000**
Trade and other payables	9,249
Accruals and other liabilities	456
	9,705

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Share capital

		2011 £	2010 £
Authorised			
1,000	Class A ordinary shares of £1	**1,000**	1,000
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

16. 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

17. Commitments and contingent liabilities

The company, together with other members of the RBSG group, is 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) together with any amounts distributed to it by its subsidiaries pursuant to the CSD 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. 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 National Westminster Bank plc which is incorporated in Great Britain and registered in England and Wales

As at 30 June 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

Amounts due to or from related parties are unsecured and will be settled in cash No guarantees have been given or received No provisions have been made for doubtful debts in respect of amounts owed by related parties