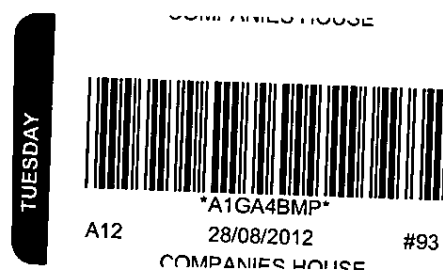


Company Registered No: 02353847

NATWEST INDUSTRIAL FINANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 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 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 31 December 2011

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

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. Currently, there are no active leases within the company. 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 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 13 to the financial statements.

Financial performance

The result for the year was £nil (2010 retained profit £1,154) which was transferred to reserves. A dividend of £315,116 was paid during the year (2010 no dividend paid).

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 7 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 7.

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 has expressed its willingness to continue in office as auditor

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

A handwritten signature in black ink, appearing to be 'R F Warren', written over a horizontal line.

R F Warren

Director

Date 17 August 2012

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

We have audited the financial statements of Natwest Industrial Finance Limited ('the company') for the year ended 31 December 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 13. 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 December 2011 and of its result 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATWEST INDUSTRIAL
FINANCE LIMITED (continued)**

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

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

21 August 2012

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

Continuing operations	Notes	2011 £	2010 £
Finance income	3	-	1,603
Profit before tax	4	-	1,603
Tax charge	5	-	(449)
Profit and total comprehensive income for the year		-	1,154

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
as at 31 December 2011

	Notes	2011 £	2010 £
Assets			
Current assets			
Loan receivables	6	<u>100</u>	<u>315,216</u>
Equity			
Share capital	8	100	100
Retained earnings		<u>-</u>	<u>315,116</u>
Total equity		<u>100</u>	<u>315,216</u>
Total liabilities and equity		<u>100</u>	<u>315,216</u>

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 17 August 2012 and signed on its behalf by



R F Warren
Director

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

	Note	Share capital £	Retained earnings £	Total £
At 1 January 2010		100	313,962	314,062
Profit for the year		-	1,154	1,154
At 31 December 2010		100	315,116	315,216
Result for the year		-	-	-
Dividends paid	9	-	(315,116)	(315,116)
At 31 December 2011		100	-	100

Total comprehensive income for the year of £nil (2010 £1,154) 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 December 2011

	2011 £	2010 £
Operating activities		
Result/profit for the year before tax	-	1,603
Adjustments for:		
Finance income	-	(1,603)
Operating cash flows before movements in working capital	-	-
Decrease/(increase) in loan receivables	315,116	(315,216)
Net cash from/(used by) operating activities before tax	315,116	(315,216)
Group relief received – fellow subsidiary company	-	1,566
Net cash flows from/(used by) operating activities	315,116	(313,650)
Cash flows from investing activities		
Interest received from group undertakings – intermediate parent company	-	1,612
Net cash flows from investing activities	-	1,612
Cash flows from financing activities		
Dividends paid	(315,116)	-
Net cash flows used by financing activities	(315,116)	-
Net decrease in cash and cash equivalents	-	(312,038)
Cash and cash equivalents at beginning of year	-	312,038
Cash and cash equivalents at end of year	-	-

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 accounts are prepared on the historical cost basis

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

The company is incorporated in the UK and registered in England and Wales. 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 January 2011. They have had no material effect on the company's financial statements for the year ended 31 December 2011.

b) Revenue recognition

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

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.

c) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

d) 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.

e) Impairment of financial assets

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

f) 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.

g) Cash and cash equivalents

In the cash flow statement, 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.

h) Accounting developments

The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in IAS 39 in respect of financial assets. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost. A financial asset is classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Only assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on principal 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. Changes in the value of financial assets measured at fair value are generally taken to profit or loss.

In October 2010, IFRS 9 was updated to include requirements in respect of the classification and measurement of liabilities. These do not differ markedly from those in IAS 39 except for the treatment of changes in the fair value of financial liabilities that are designated as at fair value through profit or loss attributable to own credit; these must be presented in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****h) Accounting developments (continued)**

In December 2010, the IASB issued amendments to IFRS 9 and to IFRS 7 'Financial Instruments Disclosures' delaying the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 and introducing revised transitional arrangements including additional transition disclosures. If an entity implements IFRS 9 in 2012 the amendments permit it either to restate comparative periods or to provide the additional disclosures. The additional transition disclosures must be given if implementation takes place after 2012.

IFRS 9 makes major changes to the framework for the classification and measurement of financial instruments and will have a significant effect on the company's financial statements. The company is assessing the effect of IFRS 9 which will depend on the outcome of the other phases of the IASB's IAS 39 replacement project and on the outcome of the IASB's tentative decision at its December 2011 meeting to reconsider the following topics:

- additional application guidance to clarify how the instrument characteristics test was intended to be applied
- bifurcation of financial assets, after considering any additional guidance for the instrument characteristics test
- expanded use of other comprehensive income or a third business model for some debt instruments

'Disclosures - Transfers of Financial Assets (Amendments to IFRS 7)' was published by the IASB in October 2010. This replaces IFRS 7's existing derecognition disclosure requirements with disclosures about (a) transferred assets that are not derecognised in their entirety and (b) transferred assets that are derecognised in their entirety but where an entity has continuing involvement in the transferred asset. The amendments are effective for annual periods beginning on or after 1 July 2011.

The IASB issued an amendment to IAS 12 'Income Taxes' in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability. The amendment and consequential withdrawal of SIC 21 'Deferred Tax: Recovery of Underlying Assets', effective for annual periods beginning on or after 1 January 2012, is not expected to have a material effect on the company.

In May 2011, the IASB issued six new or revised standards:

IFRS 10 'Consolidated Financial Statements' which replaces SIC-12 'Consolidation - Special Purpose Entities' and the consolidation elements of the existing IAS 27 'Consolidated and Separate Financial Statements'. The new standard adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.

IAS 27 'Separate Financial Statements' which comprises those parts of the existing IAS 27 that dealt with separate financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****h) Accounting developments (continued)**

IFRS 11 'Joint Arrangements', which supersedes IAS 31 'Interests in Joint Ventures', distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method.

IAS 28 'Investments in Associates and Joint Ventures' covers joint ventures as well as associates, both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

IFRS 12 'Disclosure of Interests in Other Entities' covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27. Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities.

IFRS 13 'Fair Value Measurement' which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements.

The standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The company is reviewing the standards to determine their effect on the company's financial reporting.

In June 2011, the IASB issued amendments to two standards.

Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification. The amendments are effective for annual periods beginning on or after 1 July 2012. Earlier application is permitted.

Amendments to IAS 19 'Employee Benefits' require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach', interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate, and all past service costs to be recognised immediately when a scheme is curtailed or amended.

These amendments are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The company is reviewing the amendments to determine their effect on the company's financial reporting.

In December 2011, the IASB issued 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' and 'Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)'. The amendment to IAS 32 adds application guidance on the meaning of 'a legally enforceable right to set off' and on simultaneous settlement.

IFRS 7 is amended to require disclosures facilitating comparisons between those entities reporting under IFRS and those reporting under US GAAP. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

h) Accounting developments (continued)

The IASB issued "Annual Improvements to IFRSs 2009-2011 Cycle" in May 2012 implementing minor changes to IFRSs, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording. The revisions are effective for annual accounting periods beginning on or after 1 January 2013 and are 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 use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results.

3. Finance income

	2011 £	2010 £
On loan receivables		
From group undertakings – intermediate parent company	-	1,603

4. Profit before tax

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by The Royal Bank of Scotland plc ("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 the directors of the company do not receive remuneration for specific services provided to the company.

There was no charge in either the current or prior year's financial statements for auditors' remuneration as the fees of £6,000 (2010: £5,000) were charged in the financial statements of The Royal Bank of Scotland Group plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Tax

	2011 £	2010 £
Current taxation		
UK corporation tax charge for the year	-	449

The actual tax charge matches the expected tax charge

The changes to tax rates and capital allowances proposed in the Budgets on 22 June 2010, 23 March 2011 and 21 March 2012 are not expected to have a material effect on the company

6. Loan receivables

	2011 £	2010 £
Current		
Amounts owed by group undertakings – fellow subsidiary company	100	315,216

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

7. Financial instruments and risk management

(i) Fair value

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

(ii) Financial risk management

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

Interest rate risk

Interest rate risk arises where assets and liabilities have different repricing maturities

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

2011	Non – interest earning £
Financial assets	
Loan receivables	100
	<hr/>
2010	Non – interest earning £
Financial assets	
Loan receivables	315,216
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. 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 at the balance sheet date were receivable for the whole year.

If interest rates had been 0.5% (2010: 0.5%) higher and all other variables were held constant, there would be no material impact on profit or equity in the current or prior year.

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.

Maximum credit exposure and neither past due nor impaired

	2011 £	2010 £
Group undertakings	100	315,216

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Liquidity risk

The company has no material liquidity risk as it has access to group funding

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)

The company's intra-group liabilities may in certain circumstances become repayable on demand pursuant to the terms of the capital support deed (see note 11 - commitments and contingent liabilities)

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The company manages this risk, in line with the RBS group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The company also maintains contingency facilities to support operations in the event of disasters.

8. Share capital

		2011 £	2010 £
Authorised			
1,000	Ordinary shares of £1	1,000	1,000
<hr/>			
Allotted, called up and fully paid			
Equity shares			
100	Ordinary shares of £1	100	100
<hr/>			

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

9. Dividends paid

On 24 February 2011, the directors approved the payment of a dividend of £315,116 (2010 no dividend paid)

10. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**11. 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). 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.

12. Related parties**UK Government**

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 enters into transactions with these bodies on an arms' length basis, they include the payment of taxes including the payment of UK corporation tax.

Group undertakings

The company's immediate parent company is National Westminster Bank Plc, a company incorporated in Great Britain and registered in England and Wales. As at 31 December 2011, National Westminster Bank Plc heads the smallest group in which the company is consolidated. Copies of the consolidated accounts of this company may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh EH12 1HQ.

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. As at 31 December 2011, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated. Copies of the consolidated accounts of this company 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**12. Related parties (continued)**

The company is a subsidiary of The Royal Bank of Scotland Group plc whose policy is for companies to bear the costs of their full time staff. The time and costs of executives and other staff who are primarily employed by the group are not specifically recharged. However, the group recharges subsidiaries for management fees which include an allocation of certain staff and administrative support costs.

In the company and the group, key management comprise directors of the company and members of the Group Executive Management Committee. The emoluments of the directors of the company are met by the group.

The directors of the company do not receive remuneration for specific services provided to the company.

13. Post balance sheet events

There have been no significant events between the year end and the date of approval of these financial statements which would require a change to or disclosure in these financial statements.