

Company Registration No: 02854899

R. B. (2) INVESTMENT COMPANY

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

30 September 2008



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

R. B. (2) Investment Company

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R. B. (2) Investment Company

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:
S Caterer
P Sullivan
R Warren
J Rogers

SECRETARY: C Whittaker

REGISTERED OFFICE:
The Quadrangle
The Promenade
Cheltenham
Gloucestershire
GL50 1PX

AUDITORS:
Deloitte LLP
Bristol

Registered in England and Wales.

R. B. (2) Investment Company

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 30 September 2008.

ACTIVITIES AND BUSINESS REVIEW

This directors' report has been prepared in accordance with the special provisions relating to small companies under section 417(1) of the Companies Act 2006.

Activity

The company disposed of its investments in a prior period and as such has ceased to trade, note 1 to the accounts gives more information on the fact that the accounts have not been prepared on a going concern basis. The Directors do not anticipate that any further transactions will be written in this company.

The retained profit for the period was £2,000 (2007: £1,299,000) and this was transferred to reserves. The company declared a dividend of £5,250,000 (17.74p per share) (2007: nil).

The Company seeks to minimise its exposure to external financial risks other than credit risk, further information is disclosed in Note 2.

Post balance sheet event

On 1 December 2008, the UK Government through HM Treasury acquired a controlling shareholding in The Royal Bank of Scotland Group plc. The UK Government has announced that its shareholdings in banks will be managed by UK Financial Investments Limited a company wholly-owned by the UK Government.

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1.

From 1 October 2007 to date the following changes have taken place:

	Appointed	Resigned
Directors		
A Devine		31 July 2008
A Farnell		31 July 2008
P Tubb		15 August 2008
R Warren	31 July 2008	
P Sullivan	31 July 2008	
I Shephard	1 September 2008	10 February 2009
J Rogers	16 March 2009	

R. B. (2) Investment Company

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Acts 1985 and 2006 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance, and cash flows of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which 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 Acts 1985 and 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

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

- a) so far as he/she is aware there is no relevant audit information of which the Company's auditors are unaware; and
- b) the director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

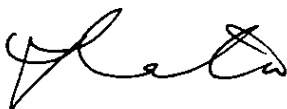
This confirmation is given and shall be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

AUDITORS

On 1 December 2008, Deloitte & Touche LLP changed their name to Deloitte LLP.

Deloitte LLP have expressed their willingness to continue in office as auditors.

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



S J Caterer
Director

Date: 28 July 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF R. B. (2) INVESTMENT COMPANY

We have audited the financial statements of R. B. (2) Investment Company ("the company") for the year ended 30 September 2008 which have been prepared on a basis other than that of going concern and which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related Notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 30 September 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



Deloitte LLP
Chartered Accountants and Registered Auditors
Bristol, United Kingdom

29 July 2009

R. B. (2) INVESTMENT COMPANY

INCOME STATEMENT
for the year ended 30 September 2008

	Note	2008 £'000	2007 £'000
DISCONTINUED OPERATIONS			
Finance income	5	<u>3</u>	<u>1,856</u>
PROFIT BEFORE TAXATION		3	1,856
Tax charge	6	<u>(1)</u>	<u>(557)</u>
PROFIT FOR THE FINANCIAL YEAR	13	<u><u>2</u></u>	<u><u>1,299</u></u>

The notes on pages 9 to 14 form part of these financial statements.

R. B. (2) INVESTMENT COMPANY

STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 30 September 2008

	2008 £'000	2007 £'000
Profit for the year	<u>2</u>	<u>1,299</u>
Total recognised income and expense for the year	<u><u>2</u></u>	<u><u>1,299</u></u>

R. B. (2) INVESTMENT COMPANY

BALANCE SHEET
as at 30 September 2008

	Note	2008 £'000	2007 £'000
CURRENT ASSETS			
Trade and other receivables	8	31,290	36,537
Cash and cash equivalents	9	-	368
TOTAL ASSETS		<u>31,290</u>	<u>36,905</u>
CURRENT LIABILITIES			
Bank loans	11	(652)	-
Trade and other payables	10	-	(1,019)
TOTAL LIABILITIES		<u>(652)</u>	<u>(1,019)</u>
NET ASSETS		<u>30,638</u>	<u>35,886</u>
EQUITY			
Share capital	12	29,600	29,600
Retained earnings	13	1,038	6,286
TOTAL EQUITY		<u>30,638</u>	<u>35,886</u>

The financial statements on pages 5 to 14 were approved by the Board of Directors and authorised for issue on 28 July 2009. They were signed on its behalf by :-



S J Caterer
Director

The notes on pages 9 to 14 form part of these financial statements.

R. B. (2) INVESTMENT COMPANY

CASH FLOW STATEMENT
for the year ended 30 September 2008

	Note	2008 £'000	2007 £'000
NET CASH USED IN OPERATING ACTIVITIES	14	<u>(1,020)</u>	<u>(216)</u>
NET DECREASE IN CASH & CASH EQUIVALENTS		(1,020)	(216)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		368	584
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>(652)</u>	<u>368</u>

R. B. (2) INVESTMENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

a BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. The Company in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, also complies with IFRS as issued by the International Accounting Standards Board.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

IFRS 7 'Financial Instruments: Disclosures' which became effective in this period introduces new disclosures relating to financial instruments but does not have any impact on the classification or valuation of the Company's financial instruments

The directors do not believe the adoption of any Standards or Interpretations that have been issued but are not yet effective will have any material impact on the financial statements of the Company.

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.

The company has ceased to trade following its disposal of all its investments in earlier periods. As required by IAS 1 Presentation of financial statements, management has prepared the financial statements on the basis that the entity is no longer a going concern. No material adjustments arose as a result of ceasing to apply the going concern basis.

b FEE INCOME

Fees are in respect of services and are recognised on the basis of Significant Act. The fee is recognised once the terms of the lease have been agreed.

c TAXATION

Provision is made for taxation at current enacted rates on taxable profits.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

d FINANCIAL INSTRUMENTS

The Company's financial asset categories are loans and receivables. Loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

The Company's financial liabilities are all categorised as financial liabilities measured at amortised cost. This comprises 'bank overdraft and loans' and 'trade and other payables' in the balance sheet.

The Company does not account for any financial asset or liabilities at fair value through profit or loss.

R. B. (2) INVESTMENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES - continued

f TRADE AND OTHER RECEIVABLES

Trade and other receivables are measured on initial recognition at fair value, and subsequently measured at amortised cost using the effective interest rate method. Trade and other receivables do not carry any interest and are stated at their nominal value.

g CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

h BORROWINGS

Interest-bearing loans and bank overdrafts are initially recorded at fair value and are subsequently measured at amortised cost using the effective interest rate method.

i TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Trade and other payables are not interest bearing and are stated at their nominal value.

j OPERATING PROFIT

Operating profit is stated before charging or crediting investment income and finance costs.

2 FINANCIAL RISK MANAGEMENT

a Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

b Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company minimises currency risk by ensuring all transactions are undertaken in the same currency.

c Credit risk

Credit risk is the risk arising from the possibility that the Company will incur losses from the failure of counterparties to meet their obligations. Credit risk is managed through The Royal Bank of Scotland plc Group Credit Risk Management Framework to enable the Group to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved risk appetite on a Group basis. The Framework encompasses credit risk assessment prior to the approval of any credit exposure, and the control and monitoring of these exposures against approved limits.

R. B. (2) INVESTMENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS

2 FINANCIAL RISK MANAGEMENT - continued

d Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Any maturity mis-match within the overall long-term structure of the Company's assets and liabilities is managed to ensure that term asset commitments may be funded on an economic basis over their life. The short-term maturity structure of the Company's liabilities and assets is managed on a daily basis to ensure that all cash flow obligations can be met as they arise.

e Capital management

The Company is a member of a group with regulatory disciplines over the use of its capital. Although the Company itself is not regulated it aims to maintain capital resources commensurate with the nature, scale and risk profile of its business. It regards its capital as the total equity as shown on the balance sheet.

3 PARENT COMPANIES

The Company's immediate parent company is R. B. Investment Holdings Limited

The Company's ultimate holding company, ultimate controlling party and the parent of the largest group into which the Company is consolidated, is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

The smallest subgroup into which the Company is consolidated has as its parent company The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

4 STAFF COSTS

All directors and employees are employed and remunerated by The Royal Bank of Scotland plc, which did not make a recharge to the Company in the year. The average monthly number of employees was nil (2007: nil).

5 FINANCE INCOME

	2008 £'000	2007 £'000
Interest receivable from group undertakings	<u>3</u>	<u>1,856</u>

6 TAXATION

	2008 £'000	2007 £'000
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A) ANALYSIS OF TAX CHARGE FOR THE YEAR

Current tax charge

- Group relief payable on profit for the year

<u>1</u>	<u>557</u>
<u>1</u>	<u>557</u>

B) FACTORS AFFECTING THE TAX CHARGE FOR THE YEAR

Profit before tax

<u>3</u>	<u>1,856</u>
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Tax on profit at the blended rate of 29% (2007: 30%)

<u>1</u>	<u>557</u>
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Tax charge

<u>1</u>	<u>557</u>
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The standard corporation tax rate changed from 30% to 28% effective 1 April 2008. The implication for the Company is that corporation tax has been charged at 30% for 6 months to 31 March 2008 and 6 months at 28% to 30 September 2008. This has given rise to an average (blended) rate of corporation tax for the year of 29%.

R. B. (2) INVESTMENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS

7 FINANCIAL INSTRUMENTS

a) Carrying value and fair value of financial instrument by category:

	Carrying value 2008 £'000	Fair value 2008 £'000	Carrying value 2007 £'000	Fair value 2007 £'000
Loans and receivables				
Trade and other receivables	31,290	31,290	36,537	36,537
Cash and cash equivalents	-	-	368	368
Financial assets	<u>31,290</u>	<u>31,290</u>	<u>36,905</u>	<u>36,905</u>
Financial liabilities measured at amortised cost				
Trade and other payables	-	-	1,019	1,019
Bank loans	652	652	-	-
Financial liabilities	<u>652</u>	<u>652</u>	<u>1,019</u>	<u>1,019</u>

b) Financial instrument - carrying amount by market risk exposure:

Interest rate risk:

Financial assets		
- variable rate	-	368
- non-interest bearing	31,290	36,537
	<u>31,290</u>	<u>36,905</u>
Financial liabilities		
- variable rate	-	-
- non-interest bearing	652	1,019
	<u>652</u>	<u>1,019</u>

The company has received interest of £3,000 on the amounts due from group undertakings during the year (2007: £1,856,000), however at the year-end these amounts were non-interest bearing.

If market interest rates had been 1% higher or lower the profit or loss and equity of the Company would not have been materially affected (2007: £3,680 higher or lower).

c) Financial asset - credit quality and concentration of credit risk:

	2008 £'000	2007 £'000
Maximum credit exposure and neither past due nor impaired:		
Group undertakings	<u>31,290</u>	<u>36,905</u>

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

d) Liquidity risk:

	2008 £'000	2007 £'000
All due within one year:		
Bank loans	652	-
Trade payables	-	1,019
	<u>652</u>	<u>1,019</u>

R. B. (2) INVESTMENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS

8 TRADE AND OTHER RECEIVABLES	2008 £'000	2007 £'000
Amounts due from group undertakings	<u>31,290</u>	<u>36,537</u>

9 CASH AND CASH EQUIVALENTS	2008 £'000	2007 £'000
Short term deposits with group undertakings	<u>-</u>	<u>368</u>

Included in the cash flow statement is the short-term bank loan of £652,000 (2007:£nil) which qualifies as a cash equivalent.

10 TRADE AND OTHER PAYABLES	2008 £'000	2007 £'000
Amounts due to group undertakings	<u>-</u>	<u>1,019</u>

11 BANK LOAN	2008 £'000	2007 £'000
Due within one year:		
Bank loan due to group undertakings	<u>652</u>	<u>-</u>

A right of set-off exists over the Company's bank account with The Royal Bank of Scotland plc against advances made to the Company's immediate holding company and its subsidiaries.

The effective interest rate on the loan is nil% (2007: nil%) p.a.

12 SHARE CAPITAL	2008 Number of shares	2007	2008 £	2007 £
Authorised:	<u>250,000,000</u>	<u>250,000,000</u>	<u>250,000,000</u>	<u>250,000,000</u>
Issued, called up and fully paid:	<u>29,600,000</u>	<u>29,600,000</u>	<u>29,600,000</u>	<u>29,600,000</u>

The Company has one class of ordinary voting shares which carry no right to fixed income.

13 RETAINED EARNINGS	£'000
Balance at 1 October 2006	4,987
Profit for the financial year	<u>1,299</u>
Balance at 1 October 2007	6,286
Dividends payable	(5,250)
Profit for the financial year	<u>2</u>
Balance at 30 September 2008	<u>1,038</u>

During the period the company paid a dividend of 17.74p per share (2007: nil).

R. B. (2) INVESTMENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS

14 NOTES TO THE CASH FLOW STATEMENT

	2008 £'000	2007 £'000
Profit before tax	3	1,856
Adjustments for:		
Interest expense	<u>(3)</u>	<u>(1,856)</u>
Cash generated by operations	-	-
Income taxes paid	(1,021)	(238)
Interest received	<u>1</u>	<u>22</u>
Net cash used in operating activities	<u>(1,020)</u>	<u>(216)</u>

15 RELATED PARTY TRANSACTIONS

During the period, the Company entered into the following related party transactions.

	2008 £'000	2007 £'000
Royal Bank Leasing Limited		
Transactions during the period		
- Group relief paid	1,021	238
- Interest on deposit received from related party	1	22
- Additional borrowing taken from related party	<u>(1,020)</u>	<u>-</u>
Group relief owed to related party	-	(1,019)
Outstanding balance owed by the related party	<u>(652)</u>	<u>368</u>
R.B. Investment Holdings Limited.		
Transactions during the period		
- Interest on loan paid by related party	-	1,835
- Dividend declared	<u>(5,250)</u>	<u>-</u>
		Restated
Outstanding balance owed by the related party	<u>31,290</u>	<u>36,537</u>

The prior periods outstanding balance owed by R. B. Investment Holdings Limited excluded the interest accrued on the loans, this has been restated.

The amounts outstanding 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 the amounts owed by related parties. Both The Royal Bank of Scotland plc and Royal Bank Leasing Limited are fellow subsidiaries of the ultimate holding company The Royal Bank of Scotland Group plc.

16 POST BALANCE SHEET EVENT

On 1 December 2008, the UK Government through HM Treasury acquired a controlling shareholding in The Royal Bank of Scotland Group plc. The UK Government has announced that its shareholdings in banks will be managed by UK Financial Investments Limited a company wholly-owned by the UK Government.