

**Company Registered No: 03112015**

**R. B. LEASING (SHAFTESBURY) LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**For the year ended 30 September 2010**

**TUESDAY**



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**14/06/2011**

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**COMPANIES HOUSE**

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

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2010**

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**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**

**S J Caterer  
J E Rogers  
P D J Sullivan  
R F Warren**

**SECRETARY:**

**C J Whittaker**

**REGISTERED OFFICE:**

**The Quadrangle  
The Promenade  
Cheltenham  
GL50 1PX**

**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 September 2010

**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 was the provision of fixed asset finance, usually involving structured facilities. The company's lease terminated during the year and the company has ceased to trade.

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 made a loss after tax during the year as a result of the termination of the lease. The directors are satisfied that this was a one-off event that is not likely to recur and are otherwise satisfied with the performance of the company. The company will be guided by its shareholders in seeking further opportunities for growth.

***Financial performance***

The retained loss for the year was £640,000 (2009 retained profit £1,251,000) and this was transferred (from)/to reserves. The directors do not recommend the payment of a dividend (2009 a dividend of £1,000,000 was paid).

***Principal risks and uncertainties***

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 16 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 16.

***Going concern***

The company is not currently trading. 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.

**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.

**DIRECTORS' REPORT (continued)**

**DISCLOSURE OF INFORMATION TO AUDITOR**

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

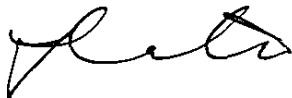
- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the company's auditor is aware of that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

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

**AUDITOR**

Deloitte LLP 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 10 June 2011

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF R. B. LEASING (SHAFTESBURY) LIMITED**

We have audited the financial statements of R B Leasing (Shaftesbury) Limited ('the company') for the year ended 30 September 2010 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 19. These financial statements have been prepared on a basis other than that of going concern under the accounting policies set out therein. 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 auditors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 September 2010 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 R. B. LEASING  
(SHAFTESBURY) 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** (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor,  
Bristol, United Kingdom  
{Date} 13 June 2011



**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 30 September 2010**

<b>Discontinued operations</b>	<b>Notes</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Revenue	<b>3</b>	366	1,600
Operating income	<b>4</b>	2	11
Operating expenses	<b>5</b>	(6)	-
<b>Operating profit</b>		<u>362</u>	<u>1,611</u>
Finance income	<b>6</b>	114	93
<b>Profit before tax</b>	<b>7</b>	<u>476</u>	<u>1,704</u>
<b>Tax charge</b>	<b>8</b>	<u>(1,116)</u>	<u>(453)</u>
<b>(Loss)/profit and total comprehensive (loss)/income for the year</b>		<u>(640)</u>	<u>1,251</u>

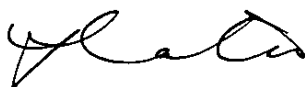
The accompanying notes form an integral part of these financial statements

**BALANCE SHEET**  
**as at 30 September 2010**

	Notes	2010 £'000	2009 £'000
<b>Assets</b>			
<b>Current assets</b>			
Finance lease receivables	10	-	21,725
Prepayments, accrued income and other assets	11	1	-
Cash	12	25,641	4,867
<b>Total assets</b>		<u>25,642</u>	<u>26,592</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	-	2
Accruals, deferred income and other liabilities	14	4,317	88
		<u>4,317</u>	<u>90</u>
<b>Non-current liabilities</b>			
Deferred tax liability	15	-	4,537
<b>Total liabilities</b>		<u>4,317</u>	<u>4,627</u>
<b>Equity</b>			
Share capital	16	19,775	19,775
Retained earnings		1,550	2,190
<b>Total equity</b>		<u>21,325</u>	<u>21,965</u>
<b>Total liabilities and equity</b>		<u>25,642</u>	<u>26,592</u>

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors on 10 June 2011 and signed on its behalf by



S J Caterer  
Director

**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 30 September 2010**

	<b>Note</b>	<b>Share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
<b>At 1 October 2008</b>		19,775	1,939	21,714
Profit for the year		-	1,251	1,251
Dividends paid	<b>9</b>	-	(1,000)	(1,000)
<b>At 30 September 2009</b>		19,775	2,190	21,965
Loss for the year		-	(640)	(640)
<b>At 30 September 2010</b>		19,775	1,550	21,325

Total comprehensive loss for the year of £640,000 (2009 income of £1,251,000) 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 September 2010

	Notes	2010 £'000	2009 £'000
<b>Operating activities</b>			
Profit for the year before tax		476	1,704
<b>Adjustments for:</b>			
Finance income		(114)	(93)
<b>Operating cash flows before movements in working capital</b>		<u>362</u>	<u>1,611</u>
Decrease/(increase) in finance lease receivables		21,725	(616)
Decrease in trade and other payables		(2)	(13)
Decrease in accruals, deferred income and other liabilities		(2)	-
<b>Net cash from operating activities before tax</b>		<u>22,083</u>	<u>982</u>
Tax paid to related party – immediate parent company		(1,422)	(593)
<b>Net cash flows from operating activities</b>		<u>20,661</u>	<u>389</u>
<b>Cash flows from investing activities</b>			
Interest received		113	94
<b>Net cash flows from investing activities</b>		<u>113</u>	<u>94</u>
<b>Cash flows from financing activities</b>			
Dividends paid		-	(1,000)
<b>Net cash flows used by financing activities</b>		<u>-</u>	<u>(1,000)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		20,774	(517)
<b>Cash and cash equivalents at beginning of year</b>		4,867	5,384
<b>Cash and cash equivalents at end of year</b>	12	<u>25,641</u>	<u>4,867</u>

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 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

The company ceased to trade during the financial year. These events did not require the company to remeasure, reclassify or adjust the settlement date of any assets or liabilities. IAS1 "Presentation of Financial Statements" describes the preparation of financial statements in such circumstances as being other than on a going concern basis.

**Adoption of new and revised standards**

There are a number of changes to IFRS that were effective from 1 October 2009. They have had no material effect on the company's financial statements for the year ended 30 September 2010.

**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 is 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. Other contracts to lease assets are classified as operating leases.

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

**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**

All financial liabilities are measured at amortised cost using the effective interest method.

**h) Derecognition**

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition.

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires.

**i) 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****j) 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 a {significant} effect on the company's Financial Statements. The company is assessing the effect which also depends on the outcome of the other phases of IASB's IAS 39 replacement project.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**2. Critical accounting policies and key sources of estimation uncertainty**

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

**Leased assets**

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

**3. Revenue**

	2010 £'000	2009 £'000
Finance lease income		
Rents receivable	22,316	1,099
Amortisation	(21,950)	501
	<u>366</u>	<u>1,600</u>

**4. Operating income**

	2010 £'000	2009 £'000
Profit on disposal of leases	2	-
Other income	-	11
	<u>2</u>	<u>11</u>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 5. Operating expenses

	2010 £'000	2009 £'000
Management fees	5	(1)
Other charges	1	1
	<u>6</u>	<u>-</u>

Included in operating expenses is £5,000 (2009 net credit of £1,000) from management charges due to the immediate parent company

**Staff costs, number of employees and directors' emoluments**

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

**Management recharge**

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

## 6. Finance income

	2010 £'000	2009 £'000
On loans and receivables		
From group undertakings – immediate parent company	<u>114</u>	<u>93</u>

## 7. Profit before tax

	2010 £'000	2009 £'000
Profit before tax is stated after charging		
Auditors' remuneration – audit services	<u>5</u>	<u>1</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 8. Tax

	2010 £'000	2009 £'000
Current taxation		
UK corporation tax charge for the year	5,653	8
Deferred taxation		
(Credit)/charge for the year	(4,537)	445
Tax charge for the year	<u>1,116</u>	<u>453</u>

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2009 standard tax rate 28%) as follows

	2010 £'000	2009 £'000
Expected tax charge	133	477
Other non-deductible items	983	(24)
Actual tax charge for the year	<u>1,116</u>	<u>453</u>

The changes to tax rates and capital allowances proposed in the Budget on 22 June 2010 and 23 March 2011 are not expected to have a material effect on the Company

## 9. Ordinary dividends

	2010 £'000	2009 £'000
Final dividend paid to immediate parent company	<u>-</u>	<u>1,000</u>

## 10. Finance lease receivables

	Within 1 year £'000
2009	
Future minimum lease payments	22,092
Unearned finance income	<u>(367)</u>
Present value of minimum lease payments receivable	<u>21,725</u>

The company had entered into a finance lease arrangement with a housing association which matured during the year. The lease term was 10 years.

The average effective interest rate in relation to finance lease agreements approximated 7.6% in 2009.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 11. Prepayments, accrued income and other assets

	2010 £'000	2009 £'000
Accruals	1	-

## 12. Cash

	2010 £'000	2009 £'000
Cash held with group undertaking intermediate parent company	-	246
Deposits with group companies placed at within 3 months original maturity immediate parent company	25,641	4,621
<b>Cash and cash equivalents per cash flow statement</b>	<b>25,641</b>	<b>4,867</b>

## 13. Trade and other payables

	2010 £'000	2009 £'000
Other payables	-	2

## 14. Accruals, deferred income and other liabilities

	2010 £'000	2009 £'000
Accruals	-	2
Group relief payable to related party – immediate parent company	4,317	86
	<b>4,317</b>	<b>88</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**15. Deferred tax**

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

	Capital allowances £'000	Other £'000	Total £'000
<b>At 1 October 2008</b>	4,087	5	4,092
Charge/(credit) to income	450	(5)	445
<b>At 30 September 2009</b>	4,537	-	4,537
Credit to income	(4,537)	-	(4,537)
<b>At 30 September 2010</b>	-	-	-

**16. 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

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

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

**(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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 16. Financial instruments and risk management – continued

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

	Fixed rate £'000	Variable rate £'000	Non- interest earning £'000	Total £'000
<b>2010</b>				
<b>Financial assets</b>				
Prepayments, accrued income and other assets	-	-	1	1
Cash and cash equivalents	-	25,641	-	25,641
	-	25,641	1	25,642
<b>Financial liabilities</b>				
Accruals, deferred income and other liabilities	-	-	4,317	4,317
<b>Net financial assets/liabilities</b>	-	25,641	(4,316)	21,325
<b>2009</b>				
<b>Financial assets</b>				
Finance lease receivables	21,725	-	-	21,725
Cash and cash equivalents	-	4,867	-	4,867
	21,725	4,867	-	26,592
<b>Financial liabilities</b>				
Trade and other payables	-	-	2	2
Accruals, deferred income and other liabilities	-	-	88	88
	-	-	90	90
<b>Net financial assets/liabilities</b>	21,725	4,867	(90)	26,502

**NOTES TO THE FINANCIAL STATEMENTS (continued)****16. Financial instruments and risk management – 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 at the balance sheet date moved in equal instalments across the year.

If interest rates had been 0.5% (2009: 2%) higher and all other variables were held constant, the company's profit before tax for the year would have increased by £76,000 (2009: £65,000). This is mainly due to the company's exposure to interest rates on its variable rate cash balances. There would be no other 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)

**16. Financial instruments and risk management – continued**

Maximum credit exposure and neither past due nor impaired

<u>Sector</u>	<u>No of counterparties</u>	<u>2010 £'000</u>	<u>2009 £'000</u>
Public services	1	-	21,725
Finance lease receivables		-	21,725
Group undertakings		25,642	4,867
Maximum credit exposure		<u>25,642</u>	<u>26,592</u>

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

<b>2010</b>	<b>0 – 3 months £'000</b>
Accruals, deferred income and other liabilities	<u>4,317</u>
<b>2009</b>	<b>0 – 3 months £'000</b>
Trade and other payables	2
Accruals, deferred income and other liabilities	<u>88</u>
	<u>90</u>

**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)

**17. Share capital**

		2010 £'000	2009 £'000
Authorised			
1,000	Ordinary shares of £1	1	1
20,000,000	Redeemable ordinary shares of £1	20,000	20,000
		<u>20,001</u>	<u>20,001</u>
Allotted, called up and fully paid			
Equity shares			
2	Ordinary shares of £1 each	-	-
19,775,000	Redeemable ordinary shares of £1	19,775	19,775
		<u>19,775</u>	<u>19,775</u>

The company has two classes of ordinary shares which carry no right to fixed income

**18. 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.

**19. 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, and its immediate parent company is Royal Bank Leasing Limited. Both companies are incorporated in Great Britain and registered in Scotland.

As at 30 September 2010, 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.