Company Registered No: 03715304

# RBS HOTEL DEVELOPMENT COMPANY LIMITED

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

**RBS HOTEL DEVELOPMENT COMPANY LIMITED** **03715304**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2010**

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**RBS HOTEL DEVELOPMENT COMPANY LIMITED** **03715304**

**OFFICERS AND PROFESSIONAL ADVISERS**

| | |
|---|---|
| **DIRECTORS:** | A R Aitken<br>S B Eighteen<br>J M Goddard<br>R Sivaraman<br>D A Duke |
| **SECRETARY.** | R E Fletcher |
| **REGISTERED OFFICE:** | 135 Bishopsgate<br>London<br>EC2M 3UR |
| **AUDITOR** | Deloitte LLP<br>Hill House<br>1 Little New Street<br>London<br>EC4A 3TR |

**Registered in England and Wales.**

## DIRECTORS' REPORT

The directors of RBS Hotel Development Company Limited ("the Company") present their report and the audited financial statements for the year ended 31 December 2010

### ACTIVITIES AND BUSINESS REVIEW

**Principal activity**

The principal activity of the Company continues to be that of a financing Company

The Company is a subsidiary of The Royal Bank of Scotland Group plc ("the Group") 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 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

**Business review**

The directors are satisfied with the Company's performance in the year The Company will be guided by its immediate parent company in seeking further opportunities for growth

**Financial performance**

The Company's financial performance is presented in the Statement of Comprehensive Income on page 7 The operating profit before tax for the year was £8,845 (2009 £10,788) The retained profit for the year was £6,368 (2009 £7,767)

At the end of the year, the balance sheet showed total assets of £1,204,037 (2009 £3,356,651)

**Dividends**

The directors do not recommend payment of a dividend (2009 £nil)

**Principal risks and uncertainties**

The Company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 9 to these financial statements

**Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and financial position are outlined above The financial position of the Company, its cash flows and liquidity position are set out in the financial statements

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

### DIRECTORS AND SECRETARY

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

## DIRECTORS' REPORT (continued)

### DIRECTORS AND SECRETARY (continued)

From 1 January 2010 to date the following changes have taken place

| Directors | Appointed | Resigned |
|---|---|---|
| N R Adcock | - | 13 January 2010 |
| S T Pattinson | - | 13 January 2010 |
| A R Aitken | 13 January 2010 | - |
| J M Goddard | 13 January 2010 | - |
| R Sivaraman | 13 January 2010 | - |
| B J Wiedemann | 13 January 2010 | 27 August 2010 |
| D A Duke | 31 August 2010 | - |

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 (IFRS) 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 IFRS 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

### POST BALANCE SHEET EVENTS

On 24 June 2011, the Company, together with other members of the RBSG group, became party to a capital support deed (CSD)

### DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

## DIRECTORS' REPORT (continued)

**AUDITOR**

Deloitte LLP have expressed their willingness to continue in office as auditor

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

**A R Aitken**
Director
Date 29 June 2011

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS HOTEL DEVELOPMENT COMPANY LIMITED**

We have audited the financial statements of RBS Hotel Development Company Limited ('the Company') for the year ended 31 December 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 14 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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

**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 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS 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 RBS HOTEL DEVELOPMENT COMPANY 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

Michael Lloyd

**Michael Lloyd**
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
London, United Kingdom
Date 30 June 2011

## STATEMENT OF COMPREHENSIVE INCOME
**For the year ended 31 December 2010**

| Continuing operations | Notes | 2010 £ | 2009 £ |
|---|---|---|---|
| Other income | | - | 646 |
| Operating expense | 3 | - | (295) |
| **Operating profit before tax** | | - | 351 |
| Non-operating income | 4 | **8,845** | 10,437 |
| **Profit before tax** | | **8,845** | 10,788 |
| Tax charge | 5 | **(2,477)** | (3,021) |
| **Profit and total comprehensive income for the year** | | **6,368** | 7,767 |

The accompanying notes on pages 11 to 17 form an integral part of these financial statements

**RBS HOTEL DEVELOPMENT COMPANY LIMITED** **03715304**

## BALANCE SHEET
**As at 31 December 2010**

| | Notes | 2010 | 2009 |
|---|---|---|---|
| | | £ | £ |
| **Assets** | | | |
| Cash and cash equivalents | 6 | **1,204,037** | 3,356,651 |
| **Total assets** | | **1,204,037** | 3,356,651 |
| **Liabilities** | | | |
| Trade and other payables | 7 | **1,127,426** | 3,285,864 |
| Current tax liability | | **2,477** | 3,021 |
| **Total liabilities** | | **1,129,903** | 3,288,885 |
| **Equity** | | | |
| Share capital | 10 | **100** | 100 |
| Retained earnings | | **74,034** | 67,666 |
| **Total equity** | | **74,134** | 67,766 |
| **Total liabilities and equity** | | **1,204,037** | 3,356,651 |

The accompanying notes on pages 11 to 17 form an integral part of these financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2011 and signed on its behalf by

**A R Aitken**
Director

## STATEMENT OF CHANGES IN EQUITY
**For the year ended 31 December 2010**

| | Share capital | Retained earnings | Total |
|---|---|---|---|
| | £ | £ | £ |
| **At 1 January 2009** | 100 | 59,898 | 59,998 |
| Profit for the year | - | 7,768 | 7,768 |
| **At 31 December 2009** | **100** | **67,666** | **67,766** |
| Profit for the year | - | 6,368 | 6,368 |
| **At 31 December 2010** | **100** | **74,034** | **74,134** |

Total comprehensive income for the year of £6,368 (2009 £7,768) was wholly attributable to the owners of the Company

The accompanying notes on pages 11 to 17 form an integral part of these financial statements

## CASH FLOW STATEMENT
**For the year ended 31 December 2010**

| | Notes | 2010 £ | 2009 £ |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit before taxation | | - | 351 |
| Net movement in trade and other payables | | (2,158,438) | 2,633,544 |
| **Net cash (used in)/from operating activities before tax** | | (2,158,438) | 2,633,895 |
| Tax paid | | (3,021) | (8,847) |
| **Net cash (used in)/from operating activities** | | (2,161,459) | 2,625,048 |
| **Cash flows from investing activities** | | | |
| Interest received | | 8,845 | 10,437 |
| **Net cash flows from investing activities** | | 8,845 | 10,437 |
| **Net (decrease)/increase in cash and cash equivalents** | | (2,152,614) | 2,635,485 |
| Cash and cash equivalents at beginning of year | | 3,356,651 | 721,166 |
| **Cash and cash equivalents at end of year** | 6 | 1,204,037 | 3,356,651 |

The accompanying notes on pages 11 to 17 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting policies

### a) Presentation of financial statements

The accounts are prepared on a going concern basis (see page 2 of Directors' Report) and in accordance with IFRS 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's financial statements are presented in accordance with the Companies act 2006

The Company is incorporated in the Great Britain and registered in England and Wales The financial statements are prepared on the historical cost basis

**Adoption of new and revised standards**

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

### b) Foreign currencies

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

### c) Revenue recognition

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 The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs All contractual terms of a financial instrument are considered when estimating future cash flows

### d) Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes, except in relation to overseas earnings where remittance is controlled by the Company

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

### e) 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

### f) Financial liabilities

On initial recognition financial liabilities are classified as 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 (see accounting policy c)

1. **Accounting policies (continued)**

**g) 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

**h) 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 no significant effect on the company's Financial Statements The company is assessing the effect which also depends on the outcome of the other phases of IASB's IAS 39 replacement project

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. Operating expenses

| | 2010 £ | 2009 £ |
|---|---|---|
| Administrative expenses | - | 295 |
| | - | 295 |

None of the directors received any emoluments from the Company for their services to the Company in the year ended 31 December 2010 (2009 £nil)

None of the directors had any material interest in any contract of significance in relation to the business of the Company in the year ended 31 December 2010 (2009 nil)

The Company did not have any employees during the current year (2009 nil)

The auditor's remuneration of £5,000 (2009 £5,000) for statutory audit work for the Company was borne by The Royal Bank of Scotland plc

## 4. Non-operating income

| | 2010 £ | 2009 £ |
|---|---|---|
| Interest receivable from group undertakings | 8,845 | 10,437 |
| | 8,845 | 10,437 |

## 5. Tax

| | 2010 £ | 2009 £ |
|---|---|---|
| UK corporation tax charge for the year | 2,477 | 3,021 |
| Under/(over) provision in respect of prior periods | - | - |
| Tax charge for the year | 2,477 | 3,021 |

The Company is resident in the United Kingdom for tax purposes The Company's corporation tax liability is determined in sterling using the standard corporation tax rate in the United Kingdom of 28% for the year ended 31 December 2010 (2009 28%)

The actual tax charge matches with the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2009 28%)

In the Budget on 22 June 2010, the UK Government proposed, amongst other things, to reduce the rate of Corporation Tax in four annual decrements of 1% with effect from 1 April 2011 The first decrement from 28% to 27% was enacted in the Finance (No 2) Act 2010 on 27 July 2010 As a result of this change, existing temporary differences may unwind in periods subject to the reduced tax rate giving rise to a reduction of the deferred tax liability Accordingly, the closing deferred tax assets have been calculated at the rate of 27% An additional 1% decrement, also effective from 1 April 2011, was announced by the UK Government in the Budget on 23 March 2011

## 6 Cash and cash equivalents

| | 2010 £ | 2009 £ |
|---|---|---|
| Cash at bank – group | 654,037 | 2,706,651 |
| Deposits with banks – group | 550,000 | 650,000 |
| | 1,204,037 | 3,356,651 |

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

## 7. Trade and other payables

| | 2010 £ | 2009 £ |
|---|---|---|
| Accruals | **1,127,426** | 3,285,865 |
| | **1,127,426** | 3,285,865 |

## 8. Financial instruments

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

| **2010** | Loans and receivables £ | At amortised cost £ | Non financial assets/ liabilities £ | Total £ |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 1,204,037 | - | - | **1,204,037** |
| | 1,204,037 | - | - | **1,204,037** |
| **Liabilities** | | | | |
| Trade and other payables | - | 1,127,426 | - | **1,127,426** |
| Current tax liability | - | - | 2,477 | **2,477** |
| | - | 1,127,426 | 2,477 | **1,129,903** |
| **Equity** | | | | **74,134** |
| | | | | **1,204,037** |

| 2009 | Loans and receivables £ | At amortised cost £ | Non financial assets/ liabilities £ | Total £ |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 3,356,651 | - | - | 3,356,651 |
| | 3,356,651 | - | - | 3,356,651 |
| **Liabilities** | | | | |
| Trade and other payables | - | 3,285,864 | - | 3,285,864 |
| Current tax liability | - | - | 3,021 | 3,021 |
| | - | 3,285,865 | 3,021 | 3,288,885 |
| **Equity** | | | | 67,766 |
| | | | | 3,356,651 |

There are no material differences between the carrying value and the fair value of the financial instruments

## 9. Risk management

The principal risks associated with the Company are as follows

**Market risk**
Market risk is the potential for loss as a result of adverse changes in risk factors including interest rates, foreign currency and equity prices together with related parameters such as market volatilities

None of the Company's assets present in the balance sheet as at 31 December 2010 are subject to market risk (2009 £nil)

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

**9. Risk management (continued)**

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

The financial liabilities of the Company consist of amounts due to group undertakings and third party trade payables The amounts due to group undertakings do not have any significant interest rate risk as they are due primarily on demand The third party trade payables do not have any significant interest rate risk as the Company follows the policy and practice on payment of creditors determined by the Group as detailed in the Directors' Report

**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

The Company's exposure to credit risk is not considered to be significant as the credit exposures are with Group companies (see Note 6) At 31 December 2010 there were no outstanding or impaired loans due to the Company (2009 £nil)

**Liquidity risk**
Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due Liquidity risk is mitigated by the routine monitoring of key management information

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)

**10 Share capital**

| | **2010** | 2009 |
|---|---|---|
| | **£** | £ |
| **Authorised:** | | |
| 100 Ordinary Shares of £1 | **100** | 100 |
| **Allotted, called up and fully paid:** | | |
| 100 Ordinary Shares of £1 | **100** | 100 |

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

**10. Share capital (continued)**

The Company has one class of Ordinary Shares which carry no right to fixed income Holders of the Ordinary Shares have the right to receive notice of, to attend and to vote in respect of any resolution of the Company Each Ordinary Share carries an equal entitlement to receive dividends out of the funds of the Company that are legally available for distribution

**11 Capital resources**

The Company's capital consists of equity comprising issued share capital and retained earnings, 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

**12. Memorandum items**

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

**13 Related parties**

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

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland Its immediate parent is National Westminster Bank Plc, a company incorporated in Great Britain and registered in England and Wales

As at 31 December 2010, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated and National Westminster Bank 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, PO Box 1000, Edinburgh EH12 1HQ

Transactions between the Company, and the UK Government and UK Government controlled bodies, consisted solely of corporation tax which is separately disclosed in note 5 The Company was party to various transactions with The Royal Bank of Scotland plc These transactions were entered into on an arms length basis unless stated otherwise

The income statement impact for the year ended 31 December 2010 is set out in the tables below

| The Royal Bank of Scotland Plc. | **2010 £** | 2009 £ |
|---|---|---|
| Non-operating income | **8,845** | 10,437 |

Balances with group companies as at 31 December 2010 are set out in the below table

| The Royal Bank of Scotland Plc. | **2010 £** | 2009 £ |
|---|---|---|
| Deposits with banks – group | **1,204,037** | 3,356,651 |

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

**13. Related parties (continued)**

**Key management**
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

**14. Post balance sheet events**

On 24 June 2011, the Company, together with other members of the RBSG group, became party to a capital support deed (CSD)