

**RBS Equity Products (UK) Limited**  
**No 04305753**

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**Directors' Report and Financial Statements**

**Year Ended 31 December 2010**



**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

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**Report of the Directors**

The directors present their annual report and audited financial statements for the year ended 31 December 2010

**Principal activity and review of the business**

The principal activity is the receipt of interest on outstanding cash balances. The directors do not anticipate any material change in either the type or level of activities of the Company.

**Results and dividends**

The profit for the year after taxation is £319,000 (2009 £1,275,000). This has been transferred to reserves. The directors do not recommend the payment of a dividend (2009 £nil).

**Principal risks and uncertainties**

The Company's operations had exposed it to a variety of financial risks that included the effects of changes in credit risk, liquidity risk and interest rate risk. The Company had in place risk management processes which sought to limit the adverse effects of price risk.

Credit risk on outstanding debtor balances was mitigated as the loans were held with group companies.

Assets and liabilities of the Company tended to be held over short maturities and as such liquidity risk and interest rate risk were not deemed to be material risks in the context of the company.

**Financial instruments**

The Company's financial instruments, other than trading inventory and derivatives, composed of cash, debtors and creditors which arose directly from its operations.

**Going concern**

The company's business activities and financial position, the factors likely to affect its future development, performance and position are set out in the Report of the Directors. In addition, note 15 to the financial statements include the company's policies and processes for managing its exposure to risk. The company has sufficient financial resources and the directors have a reasonable expectation that the company will continue in operational existence for the foreseeable future. Accordingly, the financial statements of the company have been prepared on a going concern basis.

**RBS Equity Products (UK) Limited**  
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**Report of the Directors (continued)**

**Directors**

The directors who served during the year and up to the date of signing these financial statements were

A Austin       resigned 24 01 2011  
P S Irvine  
S J Mould

**Disclosure of information to the auditor**

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

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself 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 S 418 of the Companies Act 2006

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,



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Director  
S J Mould

Date *28 September 2011* 250 Bishopsgate, London, EC2M 4AA

**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

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**Statement of Directors' Responsibilities in Respect of the Financial Statements**

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 and loss for the financial year as far as concern members of the Company. In preparing these financial statements, International Accounting Standard 1 requires that directors

- select suitable accounting policies,
- 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 on the entity's financial position and financial 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 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.

**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

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**Independent Auditors' Report to the Members of RBS Equity Products (UK) Limited**

We have audited the financial statements of RBS Equity Products (UK) Limited (the "Company") for the year ended 31 December 2010 which comprise the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity, the accounting policies and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities, 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 Company's affairs as at 31 December 2010 and of its profit 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.

**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

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**Independent Auditors' Report to the Members of RBS Equity Products (UK) Limited**  
**(continued)**

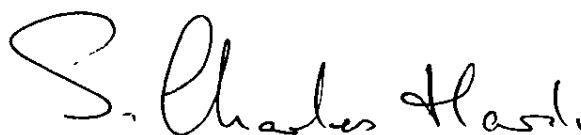
**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Company 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



Simon Hardy (Senior Statutory Auditor)  
for and behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

28 Sept.

2011



**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

**Statement of Comprehensive Income for the Year Ended 31 December 2010**

	Notes	2010 £'000	2009 £'000
Operating income	3	-	851
Administrative expenses	4	(1)	(53)
<b>Operating profit</b>		-	798
Interest revenue	8	450	450
<b>Profit on ordinary activities before tax</b>		449	1,248
Tax	9	(130)	27
<b>Profit for the year</b>		319	1,275
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year attributable to equity shareholders of the company</b>		319	1,275

The results above arose wholly from discontinued activities


The notes on pages 10 to 18 form an integral part of these financial statements

**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

**Balance Sheet as at 31 December 2010**

	Notes	2010 £'000	2009 £'000
<b>Assets</b>			
<b><i>Current assets</i></b>			
Loans and receivables	10	33,242	33,461
Cash and cash equivalents		113	109
<b>Total current assets</b>		<u>33,355</u>	<u>33,570</u>
<b>Total assets</b>		<u><b>33,355</b></u>	<u><b>33,570</b></u>
<b>Equity and liabilities</b>			
<b><i>Capital and reserves</i></b>			
Called up share capital	12	10,000	10,000
Retained earnings		23,117	22,798
<b>Total equity</b>		<u>33,117</u>	<u>32,798</u>
<b><i>Current liabilities</i></b>			
Trade and other payables	11	238	772
<b>Total current liabilities</b>		<u>238</u>	<u>772</u>
<b>Total equity and liabilities</b>		<u><b>33,355</b></u>	<u><b>33,570</b></u>

Approved by the Board of directors and authorised for issue on 28/09/11 and signed on its behalf

  
 \_\_\_\_\_ Director  
 S J Mould

The notes on pages 10 to 18 form an integral part of these financial statements



**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

**Cash Flow Statement for the year ended 31 December 2010**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
<b>Operating activities</b>		
Profit before tax	449	1,248
<b>Operating profit before changes in working capital</b>	449	1,248
(Increase)/decrease in amounts owed by group undertakings	(23)	261,155
Decrease/(increase) in other assets	112	(54)
Decrease in bank loans and overdrafts	(4)	(5,155)
(Decrease)/increase in other creditors	(238)	10
Decrease in amounts owed to group undertakings	(292)	(16,231)
	(445)	240,973
<b>Investing activities</b>		
Decrease in derivative financial instruments	-	(245,996)
<b>Net cash generated from/(used in) the operations</b>	<b>4</b>	<b>(5,023)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4</b>	<b>(5,023)</b>
Cash and cash equivalents 1 January	109	5,132
<b>Cash and cash equivalents 31 December</b>	<b>113</b>	<b>109</b>

The notes on pages 10 to 18 form an integral part of these financial statements

**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

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**Statement of Changes in Equity for the year ended 31 December 2010**

	Share capital	Retained earnings	Total equity shareholders' funds
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
At 31 December 2008	10,000	21,523	31,523
Profit for the year	-	1,275	1,275
At 31 December 2009	<u>10,000</u>	<u>22,798</u>	<u>32,798</u>
Profit for the year	-	319	319
At 31 December 2010	<u>10,000</u>	<u>23,117</u>	<u>33,117</u>

The notes on pages 10 to 18 form an integral part of these financial statements

**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

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**Notes to the Financial Statements**

**1. General Information**

RBS Equity Products (UK) Limited is a company incorporated in Great Britain under the Companies Act 2006. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the business review on page 1.

**2 Accounting policies**

The financial statements have been prepared in accordance with IFRSs adopted by the European Union (IFRS) and the Companies Act 2006.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

A summary of the principal accounting policies, which have been applied consistently throughout the year and the preceding period is set out below.

***a) Basis of preparation***

The financial statements are prepared in accordance with UK Company law and 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 (together IFRS) as adopted by the European Union (EU) for the first time.

**Adoption of new accounting 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) Interest***

Interest is recognised using the effective interest method.

***c) Foreign currencies***

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange gains and losses are included in the statement of comprehensive income.

**RBS Equity Products (UK) Limited**  
**(Company Number 04305753)**

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**Notes to the Financial Statements**

**2. Accounting policies (continued)**

***d) Taxation***

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

***e) Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand 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 changes in value

***f) 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.

**Loan impairment provisions**

The Company's loan impairment provisions were established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan was impaired when there was objective evidence that events since the loan was granted had affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

***g) Financial assets***

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or as available for sale financial assets, as appropriate. The Company has determined the classification of its financial assets at adoption of the standard and will evaluate the designation at each financial year end.

**Financial assets at fair value through profit or loss**

Financial assets classified as held for trading and other assets designated as such on adoption of the standards are included in this category. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Such assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the income statement.

Trading inventory and derivatives held by Company have been designated as financial assets at fair value through profit or loss.

**RBS Equity Products (UK) Limited**  
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**Notes to the Financial Statements**

**2. Accounting policies (continued)**

***g) Financial assets (continued)***

**Fair values**

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques where appropriate.

**Impairment**

The Company assesses at each balance sheet date whether the financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the asset's recoverable amount. The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs. Where subsequent events up to the date of approval of the financial statements indicate that the impairment loss provision is not required or not required in full, an equivalent amount of the loss provision made above will be reversed.

**Financial liabilities at fair value through profit or loss**

Financial liabilities are classified under this category where the financial liability is either held for trading or it is designated as such. A financial liability is classified as held for trading when it is acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Such liabilities are carried in the balance sheet at fair value with gains or losses on financial liabilities at fair value through profit or loss recognised in the income statement.

Short positions in trading inventory and derivatives held by the Company have been designated as financial liabilities.

***h) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss and available for sale. Such instruments are carried at amortised cost using the effective interest method if the time value of money is significant. These comprise debtors of the Company.

**RBS Equity Products (UK) Limited**  
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**Notes to the Financial Statements**

**2. Accounting policies (continued)**

*i) Going concern*

The directors' having 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. The accounts (which should be read in conjunction with the Directors' Report) are prepared on a going concern basis and in accordance with IFRS.

**3. Operating income**

The Company's operating income, which excludes value added tax, has been disclosed instead of turnover as this represents more accurately the Company's activities. Operating income represents fees, commissions, dividends and trading income for financial services provided including gains and losses arising from changes in fair values of financial assets and financial liabilities at fair value through profit or loss, all of which are discontinuing activities.

**4. Administrative expenses**

Administrative expenses comprise direct costs plus expenditure recharged by RBS Management Services (UK) Limited for central costs and overheads.

**5. Auditor's remuneration**

For the prior and current financial year, the auditor's remuneration was paid by RBS Management Services (UK) Limited. Auditor's remuneration for audit services to the Company were £15,000 (2009 £15,000).

**6. Directors' remuneration**

No director's remuneration was paid or incurred by the Company as the directors were not remunerated for the services provided to this Company. Therefore, no expense has been recognised in the income statement for the current year and the prior year.

**7. Employees**

The Company did not have any direct employees during the year (2009 nil) but incurred charges in respect of staff costs from RBS Management Services (UK) Limited.

**RBS Equity Products (UK) Limited**  
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**Notes to the Financial Statements**

**8. Interest revenue**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Interest receivable from group undertakings	450	450

**9. Tax**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Current Tax		
Charge for the year	126	347
Over provision in respect of prior periods	4	(374)
Tax (credit)/charge on profit on ordinary activities	130	(27)

***Factors affecting tax charge for year***

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Profit on ordinary activities before tax	449	1,248
Profit on ordinary activities multiplied by the applicable rate of corporation tax in the UK of 28% (2009 28%)	126	349
Effects of		
Non deductible foreign exchange difference	-	(2)
Adjustments to tax charge in respect of prior periods	4	(374)
Total tax (credit)/charge	130	(27)

**10. Loans and receivables**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Amounts owed from group undertakings	32,980	32,957
Taxation receivable	247	377
Other assets	15	127
	33,242	33,461

**RBS Equity Products (UK) Limited**  
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**Notes to the Financial Statements**

**11 Trade and other payables**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Bank loans and overdrafts	29	33
Amounts owed to group undertakings	71	363
Other creditors	138	376
	<u>238</u>	<u>772</u>

**12. Share capital**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
<b>Authorised share capital</b>		
50,000,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<b>Issued share capital</b>		
10,000,000 Allotted, called up and fully paid ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

**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.

The immediate parent undertaking is RBS Equities Holdings (UK) Limited, 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 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, PO Box 1000, Edinburgh EH12 1HQ.



**RBS Equity Products (UK) Limited**  
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**Notes to the Financial Statements**

**14. Related party transactions**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
<b>Income statement impact:</b>		
Operating income	-	851
Interest revenue	449	450
	<u>449</u>	<u>1,301</u>
<b>Balance sheet impact:</b>		
<b><i>Current assets</i></b>		
Loans and receivables	<u>32,980</u>	<u>32,957</u>
<b><i>Current liabilities</i></b>		
Trade and other payables	<u>71</u>	<u>363</u>

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.

**15. Financial instruments and principal risks and uncertainties**

The Company has financial risk exposures. This section summarises these risks and the way the Company manages them.

**Funding and liquidity risk**

The Company's liquidity policy is designed to ensure that the Company can at all times meet its obligations as they fall due.

Liquidity management within the Company addresses the overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from exposure to undrawn commitments and other contingent obligations.

**RBS Equity Products (UK) Limited**  
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**Notes to the Financial Statements**

**15. Financial instruments and principal risks and uncertainties (continued)**

**Funding and liquidity risk (continued)**

The table below details the expected maturity of the Company's material liabilities as at the balance sheet date. The table has been drawn up based on the undiscounted net cash outflows.

<b>2010</b>	<b>Up to 3 months £'000</b>	<b>3 months – 1 year £'000</b>	<b>1-5 years £'000</b>	<b>Over 5 years £'000</b>
Liabilities held at amortised cost	-	238	-	-
<b>2009</b>	<b>Up to 3 months £'000</b>	<b>3 months – 1 year £'000</b>	<b>1-5 years £'000</b>	<b>Over 5 years £'000</b>
Liabilities held at amortised cost	-	772	-	-

**Interest rate risk**

It is the Company's policy to minimise the sensitivity to changes in interest rates in its business and, where interest rate risk is retained, to ensure that appropriate resources, measures and limits are applied.

**Credit risk**

Credit risk is the risk that the Company's debtors will fail to discharge their obligations. However, these risks are mitigated as the balances are with group companies.

**Liquidity risk framework and governance**

The Company has an approved risk appetite supported by explicit targets and metrics to control the size and extent of both short-term and long-term liquidity risk. These metrics are reviewed by the Company on a regular basis. The Company uses stress tests to refine and update the risk appetite in light of changing conditions.

The table below shows the carrying amount and fair value for financial assets and liabilities. The directors are of the opinion that the carrying value is equal to the fair value.

The table also represents the carrying amounts of the Company's assets and liabilities, classified by the categories as defined in IAS 39.

**RBS Equity Products (UK) Limited**  
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**Notes to the Financial Statements**

**15. Financial instruments and principal risks and uncertainties (continued)**

**Liquidity risk framework and governance (continued)**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
	<hr/>	<hr/>
<b>Financial assets</b>		
Loans and receivables	33,242	33,461
Cash and cash equivalents	113	109
	<hr/> <b>33,355</b> <hr/>	<hr/> <b>33,570</b> <hr/>
<b>Financial liabilities</b>		
Trade and other payables	<hr/> 238 <hr/>	<hr/> 772 <hr/>

**Operational risk**

Operational risk is the potential for financial loss, damage to reputation, or impact upon customers resulting from fraud, human error, ineffective or inadequately designed processes or systems, improper behaviour, or external events. Operational risk is an integral and unavoidable part of the Company's business as it is inherent in the processes it operates to provide services to clients and generate profit for shareholders.

An objective of operational risk management is not to remove operational risk altogether, but to manage the risk to an acceptable level, taking into account the cost of minimising the risk as against the resultant reduction in exposure. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls.