Company Registered No: 04440067

LOMBARD CORPORATE FINANCE (7) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

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

LOMBARD CORPORATE FINANCE (7) LIMITED 04440067

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	S J Caterer J E Rogers P D J Sullivan R F Warren
SECRETARY:	C J Down
REGISTERED OFFICE:	The Quadrangle The Promenade Cheltenham, Gloucestershire 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 31 March 2011

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 continues to be the provision of fixed asset finance usually involving structured facilities

The company is a subsidiary of The Royal Bank of Scotland Group plc which provides the company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment For this reason, the directors believe that performance indicators specific to the company are not necessary or appropriate for an understanding of the development, performance or position of the business The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the group's website at rbs com

Review of the year

Business review

The directors are satisfied with the company's performance in the year The company will be guided by its shareholders in seeking further opportunities for growth Post balance sheet events are described in note 18 to the financial statements

Financial performance

The retained profit for the year was £1,895,000 (2010 retained profit £312,000) and this was transferred to reserves The directors do not recommend that a dividend be paid An interim dividend of £2,000,000 in respect of the year ending 31 March 2012 was paid on 15 June 2011

Principal risks and uncertainties

The company is funded by facilities from Royal Bank Leasing Limited

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 14 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 14

Going concern

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

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year, are listed on page 2

DIRECTORS' REPORT (continued)

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss for the financial year of the company In preparing these financial statements, under International Accounting Standard 1, the directors are required to

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, and
- make an assessment of the company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

AUDITOR

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

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

Julian Rogers

J E Rogers
Director
Date 1 November 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD CORPORATE FINANCE (7) LIMITED

We have audited the financial statements of Lombard Corporate Finance (7) Limited ('the company') for the year ended 31 March 2011 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the cash flow statement 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 Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all of the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 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

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 LOMBARD CORPORATE FINANCE (7) 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

Simon Cleveland FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
Bristol, United Kingdom
Date
2 November 2011

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2011

Continuing operations	**Notes**	**2011** **£'000**	**2010** **£'000**
Revenue	3	3,019	3,161
Operating expenses	4	(6)	(8)
Operating profit		3,013	3,153
Finance costs	5	(2,584)	(2,720)
Profit before tax	6	429	433
Tax credit/(charge)	7	1,466	(121)
Profit and total comprehensive income for the year		1,895	312

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
as at 31 March 2011

	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Finance lease receivables	8	62,679	67,441
Current assets			
Finance lease receivables	8	7,516	6,917
Loan receivables	9	723	393
		8,239	7,310
Total assets		70,918	74,751
Liabilities			
Current liabilities			
Borrowings from group undertakings	11	3,646	3,055
Accruals, deferred income and other liabilities	12	438	398
		4,084	3,453
Non-current liabilities			
Borrowings from group undertakings	11	42,918	46,646
Deferred tax liability	13	20,615	23,246
		63,533	69,892
Total liabilities		67,617	73,345
Equity			
Share capital	15	-	-
Retained earnings		3,301	1,406
Total equity		3,301	1,406
Total liabilities and equity		70,918	74,751

The accompanying notes form an integral part of these financial statements

The financial statements of Lombard Corporate Finance (7) Limited were approved by the Board of directors on 1 November 2011 and signed on its behalf by

Julian Rogers

J E Rogers
Director

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

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 April 2009	-	1,094	1,094
Profit for the year	-	312	312
At 31 March 2010	-	1,406	1,406
Profit for the year	-	1,895	1,895
31 March 2011	-	3,301	3,301

Total comprehensive income for the year of £1,895,000 (2010 £312,000) 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 31 March 2011

	Notes	2011 £'000	2010 £'000
Operating activities			
Profit for the year before tax		429	433
Adjustments for:			
Finance costs		2,584	2,720
Operating cash flows before movements in working capital		3,013	3,153
Decrease in finance lease receivables		4,163	3,442
Net cash from operating activities before tax		7,176	6,595
Tax paid to group undertakings – immediate parent company		(1,115)	(927)
Net cash flows used by operating activities		6,061	5,668
Cash flows from financing activities			
Repayment of borrowings		(3,137)	(2,613)
Interest paid to group undertakings – immediate parent company		(2,594)	(2,728)
Net cash flows used by financing activities		(5,731)	(5,341)
Net increase in cash and cash equivalents		330	327
Cash and cash equivalents at beginning of year		393	66
Cash and cash equivalents at end of year	10	723	393

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Presentation of accounts
The accounts are prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS)

The 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

Adoption of new and revised standards
There are a number of changes to IFRS that were effective from 1 April 2010 They have had no material effect on the company's financial statements for the year ended 31 March 2011

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 arises in the United Kingdom from continuing 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, 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

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)

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

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

h) 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

i) 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

i) Accounting developments - continued

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

The IASB issued IFRS 10 'Consolidated Financial Statements' in May 2011, it establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities IFRS 10 will supersede the current IAS 27 'Consolidated and Separate Financial Statements' and SIC 12 'Consolidation – Special Purpose Entities' A new IAS 27 'Separate Financial Statements' has been published The new IAS 27 now only contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in the parent company's separate financial statements

The IASB issued IFRS 11 'Joint Arrangements' in May 2011, it establishes the distinction between joint operations and joint ventures and the principles for financial reporting of them IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' There are some consequential changes to IAS 28 'Investments in Associates', which is renamed IAS 28 'Investments in Associates and Joint Ventures'

The IASB issued IFRS 12 'Disclosure of Interests in Other Entities' in May 2011 IFRS 12 brings the disclosure requirements in consolidated financial statements for interests in subsidiaries, joint arrangements, associates and unconsolidated structures under one standard Disclosures required in separate financial statements are dealt with in IAS 27 Separate Financial Statements

IFRS 10, IFRS 11, & IFRS 12 as well revised IAS 27 and IAS 28 are effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted If adopted early all standards must be adopted together (IFRS 12 may be adopted early without having to adopt the other standards) None of these standards applies to the company

The IASB issued IFRS 13 'Fair Value Measurement' in May 2011, setting out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements IFRS 13 is effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted The company is assessing the impact of this standard

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

	2011 £'000	2010 £'000
Finance lease income		
Rents receivable	6,762	6,202
Amortisation	(3,743)	(3,041)
	3,019	3,161

4. Operating expenses

	2011 £'000	2010 £'000
Management fees	6	8

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 Royal Bank Leasing Limited

5. Finance costs

	2011 £'000	2010 £'000
Interest on loans from group undertakings	2,584	2,720

6. Operating profit before tax

	2011	2010
Operating profit before tax is stated after charging	£'000	£'000
Auditor's remuneration – audit services included in management fee in note 4	5	8

7. Tax

	2011 £'000	2010 £'000
Current taxation		
UK corporation tax charge for the year	1,165	971
Deferred taxation		
Credit for the year	(998)	(850)
Impact of rate change from 28% to 26%	(1,633)	-
	(2,631)	(850)
Tax (credit)/charge for the year	(1,466)	121

The actual tax (credit)/charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2010 standard tax rate 28%) as follows

	2011 £'000	2010 £'000
Expected tax charge	120	121
Reduction in deferred tax following change in rate of UK corporation tax	(1,586)	-
Actual tax (credit)/charge for the year	(1,466)	121

In the Budget on 22 June 2010, the UK Government proposed, amongst other things, to reduce the UK Corporation Tax of 28% in four annual decrements of 1% with effect from 1 April 2011 An additional 1% decrement was announced by the UK Government in the Budget on 23 March 2011 The first 1% decrement was enacted on 27 July 2010, the second on 29 March 2011 and the third on 5 July 2011 Existing temporary differences may therefore unwind in periods subject to these reduced tax rates Accordingly, the closing deferred tax liabilities have been calculated at the rate of 26%

The impact of the post-balance sheet date change in tax rate is estimated as giving rise to a tax credit of £793,000, which will be recognised in the accounts for 2012

8. Finance lease receivables

	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
2011				
Future minimum lease payments	7,804	38,615	38,536	84,955
Unearned finance income	(288)	(5,075)	(9,397)	(14,760)
Carrying value	7,516	33,540	29,139	70,195
2010				
Future minimum lease payments	7,183	35,541	49,414	92,138
Unearned finance income	(266)	(4,671)	(12,843)	(17,780)
Carrying value	6,917	30,870	36,571	74,358

	2011 £'000	2010 £'000
Current	7,516	6,917
Non-current	62,679	67,441
	70,195	74,358

The Company has entered into a finance leasing arrangement for a large film deal The lease term is 16 years

The effective interest rate in relation to the finance lease agreement approximates 4 1% (2010 4 1%)

9 Loan receivables

	2011 £'000	2010 £'000
Current		
Amounts owed by group undertakings	723	393

The average effective interest rate over amounts owed by group undertakings approximates 0 62% (2010 0 55%)

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

10. Cash and cash equivalents per the cash flow statement

	2011 £'000	2010 £'000
Deposits with banks placed at within 3 months original maturity		
Group – intermediate parent company (note 9)	723	393
Cash and cash equivalents per cash flow statement	723	393

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Borrowings

	2011 £'000	2010 £'000
Loans from group banks - immediate parent company	46,564	49,701
Current	3,646	3,055
Non-current	42,918	46,646
	46,564	49,701

12. Accruals, deferred income and other liabilities

	2011 £'000	2010 £'000
Accruals payable to group undertakings – immediate parent company	151	161
Corporation tax payable	287	-
Group relief	-	237
	438	398

13. Deferred tax

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

	Capital allowances £'000
At 1 April 2009	24,096
Credit to income	(850)
At 31 March 2010	23,246
Credit to income	(2,631)
At 31 March 2011	20,615

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments and risk management

(i) Categories of Financial instruments
The following table shows the carrying value and the fair value of financial instruments carried on the balance sheet where financial instruments are not carried at fair value on the balance sheet Where the financial instruments are of short maturity, the carrying value is equal to the fair value

Where the interest rates on the finance lease and the borrowings have been fixed by way of an interest rate swap in the parent company, the fair value has been calculated by adjusting the carrying value by the associated mark to market arising on the swap

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

	2011 Carrying value £'000	2011 Fair value £'000	2010 Carrying value £'000	2010 Fair value £'000
Financial assets				
Finance lease receivables	70,195	75,118	74,358	80,057
Financial liabilities				
Borrowings	46,564	51,487	49,701	55,400

(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 company manages interest rate risk by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches

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

14. Financial instruments and risk management - continued

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

2011	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Finance lease receivables	70,195	-	-	70,195
Loan receivables	-	723	-	723
	70,195	723	-	70,918
Financial liabilities				
Borrowings	46,564	-	-	46,564
Accruals, deferred income and other liabilities	-	-	438	438
	46,564	-	438	47,002
Net financial assets/(liabilities)	23,631	723	(438)	23,916

2010	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Finance lease receivables	74,358	-	-	74,358
Loan receivables	-	393	-	393
	74,358	393	-	74,751
Financial liabilities				
Borrowings	49,701	-	-	49,701
Accruals, deferred income and other liabilities	-	-	398	398
	49,701	-	398	50,099
Net financial assets/(liabilities)	24,657	393	(398)	24,652

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 moved in equal instalments across the year

If interest rates had been 0 5% (2010 2%) higher and all other variables were held constant, the company's profit before tax for the year would have increased by £3,000 (2010 profit after tax for the year would have increased by £3,000) This is mainly due to the company's exposure to interest rates on its variable rate balances There would be no other material impact on equity

Currency risk

The company has no currency risk as all transactions and balances are denominated in sterling

14. Financial instruments and risk management - continued

Credit risk

The objective of credit risk management is to enable the company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the company

The key principles of the group's Credit Risk Management Framework are set out below

- Approval of all credit exposure is granted prior to any advance or extension of credit.
- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure This includes a review of, amongst other things, the purpose of credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return
- Credit risk authority is dictated by the Board and specifically granted in writing to all individuals involved in the granting of credit approval In exercising credit authority, the individuals act independently of any related business revenue origination
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits Lower quality exposures are subject to a greater frequency of analysis and assessment

Maximum credit exposure and neither past due nor impaired

Sector	No of counterparties	2011 £'000	2010 £'000
Film	1	70,195	74,358
Finance lease receivables		70,195	74,358
Group undertakings		723	393
Maximum credit exposure		70,918	74,751

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

In respect of the film lease, another bank has issued to the company a letter of credit exposure of £66,790,000 (2010 £70,360,000)

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)

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments and risk management - continued

Financial Liabilities
The following table shows by contractual maturity the undiscounted cash flows payable from the balance sheet date including future interest payments

2011	0 – 3 months £'000	4 – 12 months £'000	1 – 3 years £'000	4 – 5 years £'000	6 - 10 years £'000
Borrowings	605	5,471	13,670	15,942	23,113
Accruals, deferred income and other liabilities	438	-	-	-	-
	1,043	5,471	13,670	15,942	23,113

2010	0 – 3 months £'000	4 – 12 months £'000	1 – 3 years £'000	4 – 5 years £'000	6 - 10 years £'000
Borrowings	645	4,972	12,618	14,723	31,364
Accruals, deferred income and other liabilities	398	-	-	-	-
	1,043	4,972	12,618	14,723	31,364

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

15. Share capital

		2011 £'000	2010 £'000
Authorised			
100	Ordinary shares of £1	100	100
Allotted, called up and fully paid			
Equity shares			
2	Ordinary shares of £1	2	2

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

16. Capital resources

The company's capital consists of equity comprising issued share capital, retained earnings, loans from group undertakings and subordinated loans The company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital In the management of capital resources, the company is governed by the group's policy which is to maintain a strong capital base it is not separately regulated The group has complied with the FSA's capital requirements throughout the year

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. 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 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, 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

18. Post balance sheet events

On 29 June 2011, the company, together with other members of the RBS group, became party to a capital support deed (CSD) Under the terms of the CSD, the company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares The amount of this obligation is limited to the company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the company's available resources) The CSD also provides that, in certain circumstances, funding received by the company from other parties to the CSD becomes immediately repayable, such repayment being limited to the company's available resources

An interim dividend of £2,000,000 in respect of the year ending 31 March 2012 was paid on 15 June 2011