Company Registered No: 04985584

RBS AEROSPACE (UK) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	**P Barrett** **S J Caterer** **J E Oliver (Alternate)** **G C Petken** **G R Rolfe (Alternate)**
SECRETARY:	**C J Down**
REGISTERED OFFICE:	**The Quadrangle** **The Promenade** **Cheltenham** **GL50 1PX**
AUDITOR:	**Deloitte LLP** **3 Rivergate** **Temple Quay** **Bristol** **BS1 6GD**

Registered in England and Wales

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2011

ACTIVITIES AND BUSINESS REVIEW

Activity
The principal activity of the company continues to be the provision of fixed asset finance usually involving individually structured facilities

The company's activities are undertaken predominantly in US Dollars and this is the functional currency The financial statements are therefore presented in US Dollars

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 25 to the financial statements As set out in note 25, on 16 January 2012, the company's shareholders reached agreement to sell the entire share capital of the company to Sumitomo Mitsui Banking Corporation The sale is expected to become effective on or before 30 September 2012

Financial performance
The company's financial performance is presented in the statement of comprehensive income

Income grew by $9,047,000 (2010 fell by $2,134,000) and expenses rose by $5,741,000 (2010 fell by $12,904,000) The profit after tax for the year was $18,965,000 (2010 $13,848,000), an increase of 37 % over 2010

No dividend has been paid in 2011 (2010 $nil) and no dividend in respect of 2011 is proposed (2010 $nil)

At the end of the year, the balance sheet showed total assets of $698,184,000 (2010 $463,521,000) Total equity was $41,412,000 (2010 $22,447,000) The net book value of property, plant and equipment was $629,562,000 compared with $416,780,000 at the end of the previous year

Principal risks and uncertainties
The company is funded by facilities from The Royal Bank of Scotland plc

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 19 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 19 It also has exposure to asset risk on the residual value of property, plant and equipment (for more details see note 1).

The airline industry is cyclical and highly competitive Most of the company's aircraft are under operating leases where the cost of the aircraft is not fully recovered over the term of the lease The oversupply of a specific type of aircraft in the market could depress aircraft lease rates and values, which would affect re-lease rates The supply and demand of aircraft is affected by various cyclical factors including

- Passenger air travel and air cargo demand
- Fuel prices
- Maintenance costs
- Technological innovation and the introduction of new generation aircraft types
- Government and environmental regulations

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out above, along with the financial position of the company In addition, also as noted above, note 19 to the financial statements includes the company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk Risks are managed in line with guidance given by the Group Exposure to both interest rate risk and currency risk is minimised by the use of derivatives and fixed rate loans.

The current economic conditions create higher levels of the risks and uncertainties associated with the airline industry outlined above However, the company has considerable long-term contracts with a number of customers and suppliers across different geographic areas and sectors within the industry Past experience indicates that airline risk can be managed carefully and successfully The company has considerable borrowings from the Group These borrowings are expected to be settled upon completion of the sale of the company to Sumitomo Mitsui Banking Corporation and the Directors believe that sufficient new borrowings will be put in place upon the change of ownership of the company to meet the company's requirements for the foreseeable future As a consequence, the Directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors, having made such enquiries as they considered appropriate, 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 2.

From 1 January 2011 to date the following changes have taken place

	Appointed	Resigned
Directors		
J E Blakemore		23 March 2011
G C Petken	23 March 2011	
J E Oliver (Alternate)	7 April 2011	
D A Duke		26 July 2011
G R Rolfe (Alternate)	26 July 2011	

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 its willingness to continue in office as auditor

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

C . C. Petken

G C Petken
Director
Date 28 February 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS AEROSPACE (UK) LIMITED

We have audited the financial statements of RBS Aerospace (UK) Limited ('the company') for the year ended 31 December 2011 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 25 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 December 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

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

Simon Cleveland

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

28th February 2012

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

Continuing operations	Notes	2011 $'000	2010 $'000
Revenue	3	45,880	37,636
Cost of sales	8	(8,842)	(7,689)
Operating income	4	807	4
Operating expenses	5	(3,800)	(543)
Operating profit		34,045	29,408
Finance costs	6	(13,616)	(12,285)
Profit before tax		20,429	17,123
Tax charge	7	(1,464)	(3,275)
Profit and total comprehensive income for the year		18,965	13,848

The accompanying notes form an integral part of these financial statements

RBS AEROSPACE (UK) LIMITED 04985584

BALANCE SHEET
as at 31 December 2011

	Notes	2011 $'000	2010 $'000
Assets			
Non-current assets			
Property, plant and equipment	8	629,562	416,780
Investments in subsidiaries	9	-	-
		629,562	416,780
Current assets			
Loan receivables	11	58,955	45,660
Trade and other receivables	12	52	167
Prepayments, accrued income and other assets	13	6,258	914
Cash		3,357	-
		68,622	46,741
Total assets		698,184	463,521
Liabilities			
Current liabilities			
Borrowings	14	82,691	16,376
Trade and other payables	15	4,387	3,086
Obligations under finance leases	16	4,685	4,464
Accruals, deferred income and other liabilities	17	1,249	870
		93,012	24,796
Non-current liabilities			
Borrowings	14	450,485	318,126
Trade and other payables	15	11,258	3,924
Obligations under finance leases	16	48,838	53,235
Deferred tax liability	18	53,179	40,993
		563,760	416,278
Total liabilities		656,772	441,074
Equity			
Share capital	20	-	-
Retained earnings		41,412	22,447
Total equity		41,412	22,447
Total liabilities and equity		698,184	463,521

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors and authorised for issue on 28 February 2012 and signed on its behalf by

G.C. Petken

G C Petken
Director

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

	Notes	Share capital $'000	Retained earnings $'000	Total $'000
At 1 January 2010		-	8,599	8,599
Profit for the year		-	13,848	13,848
At 31 December 2010		-	22,447	22,447
Profit for the year		-	**18,965**	**18,965**
At 31 December 2011		-	**41,412**	**41,412**

Total comprehensive income for the year of $18,965,000 (2010 $13,848,000) 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 December 2011

	Notes	2011 $'000	2010 $'000
Operating activities			
Profit for the year before tax		20,429	17,123
Adjustments for:			
Depreciation		8,842	7,689
Finance costs		13,616	12,285
Operating cash flows before movements in working capital		42,887	37,097
Decrease in finance lease receivables		-	17,521
Decrease/(increase) in trade and other receivables		114	(162)
Decrease in prepayments, accrued income and other assets		64	53
Increase in trade and other payables		8,641	2,136
Increase in accruals, deferred income and other liabilities		619	-
Net cash from operating activities before tax		52,325	56,645
Tax received – immediate parent company		5,315	8,110
Net cash flows from operating activities		57,640	64,755
Cash flows from investing activities			
Purchases of property, plant and equipment		(221,624)	(87)
Net cash flows used by investing activities		(221,624)	(87)
Cash flows from financing activities			
Proceeds from borrowings – intermediate parent company		198,740	-
Repayment of borrowings to group undertaking – intermediate parent company		-	(35,216)
Repayment of finance lease funding		(4,176)	(3,954)
Interest paid to group undertakings – intermediate parent company		(13,862)	(11,840)
Net cash flows from/(used by) financing activities		180,702	(51,010)
Net increase in cash and cash equivalents		16,718	13,658
Cash and cash equivalents at beginning of year		45,594	31,936
Cash and cash equivalents at end of year	21	62,312	45,594

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 accounts are prepared on the historical cost basis

The company is incorporated in the UK and registered in England and Wales 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 January 2011 They have had no material effect on the company's financial statements for the year ended 31 December 2011

b) Consolidated financial statements
The financial statements contain information about RBS Aerospace (UK) Limited as an individual company and do not contain consolidated financial information as the parent of a group The company is exempt under IAS 27 Consolidated and Separate Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland

c) Foreign currencies
The company's financial statements are presented in US dollars which is the functional currency of the company

d) Revenue recognition
Revenue from operating 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

Rental income from operating leases is recognised in the income statement on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use

The terms of aircraft operating leases are assessed at the outset of each lease to determine whether the Company has the majority of the risk in connection with the maintenance of the asset ("on-risk"), or whether the economic risk is passed to the Lessee ("off-risk") Any maintenance payments which are received from Lessees through the life of the lease are recorded immediately as income for "on-risk" leases For "off-risk" leases, such payments are deferred on the balance sheet until they utilised to cover maintenance spending and the Company recognises as revenue all maintenance receipts not expected to be repaid to the Lessee

Fee income is credited to profit or loss in proportion to the balances outstanding

Fees in respect of services are recognised as the right to consideration accrues through the provisions of services to customers

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

d) Revenue recognition (continued)
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

e) Taxation
Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date

f) Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately

Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives

The depreciable amount is the cost of an asset less its residual value

Estimated useful lives are as follows

Aircraft for hire under operating lease – 5 to 15 years from date of manufacture

Aircraft held for hire under operating leases are assessed to determine whether they are "on-risk" or "off-risk" for maintenance, as set out in the policy for lease income For those leases which are "off-risk", the aircraft is recorded as one asset and depreciated to its residual value as set out below The cost of assets owned for operating leases where the company is "on-risk" for maintenance are separated into components representing the prepaid maintenance of the engines, airframe overhaul and underlying airframe Maintenance components are amortised over the period from purchase to the next expected maintenance event for that component Subsequent expenditure on maintenance is capitalised and depreciated over the period to the next maintenance or the end of the useful economic life

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

f) Property, plant and equipment (continued)
Estimated residual values are reviewed annually at each period end, with reference to current market conditions and the expected maintenance condition of the asset at the end of the useful economic life Where estimated residual values are found to have changed significantly, this is recorded prospectively as a change in estimate and depreciation charges over the remaining useful life are adjusted to take account of the revised estimate

g) Impairment of property, plant and equipment
At each reporting date, the company assesses whether there is any indication that its property, plant and equipment are impaired If any such indication exists, the company estimates the recoverable amount of the asset and the impairment loss if any

h) Investments in group undertakings
Investments in group undertakings are stated at cost less any impairment

i) Leases
Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives (see accounting policy f)

j) 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

k) Impairment of financial assets
The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset

l) 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

m) Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition

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

n) Obligations under finance leases

Assets held under finance leases are recognised as assets at the present value of the minimum lease payments determined at the inception of the lease The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly to profit or loss

o) Cash and cash equivalents

In the cash flow statement, 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

p) Accounting developments

The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments Recognition and Measurement' in respect of financial assets The standard reduces the measurement categories for financial assets to two fair value and amortised cost A financial asset is classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset Only 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 Changes in the value of financial assets measured at fair value are generally taken to profit or loss

In October 2010, IFRS 9 was updated to include the classification and measurement of liabilities It is not markedly different from IAS 39 except for liabilities measured at fair value where the movement is due to changes in credit rating of the preparer it is recognised not in profit or loss but in other comprehensive income

The standard is 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 an effect on the company's financial statements The changes relating to the classification and measurement of liabilities carried at fair value will have a less significant effect on the company The company is assessing these impacts which are likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

p) Accounting developments (continued)

The IASB issued an amendment to IAS 12 'Income Taxes' in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability The amendment and consequential withdrawal of SIC 21 'Deferred Tax Recovery of Underlying Assets', effective for annual periods beginning on or after 1 January 2012, is not expected to have a material effect on the company

In May 2011, the IASB issued six new or revised standards

IFRS 10 Consolidated Financial Statements which replaces SIC-12 Consolidation - Special Purpose Entities and the consolidation elements of the existing IAS 27 Consolidated and Separate Financial Statements The new standard adopts a single definition of control a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity

IAS 27 Separate Financial Statements which comprises those parts of the existing IAS 27 that dealt with separate financial statements

IFRS 11 Joint Arrangements which supersedes IAS 31 Interests in Joint Ventures IFRS 11 distinguishes between joint operations and joint ventures Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs Joint ventures are accounted for in the investor's consolidated accounts using the equity method

IAS 28 Investments in Associates and Joint Ventures covers joint ventures as well as associates, both must be accounted for using the equity method The mechanics of the equity method are unchanged

IFRS 12 Disclosure of Interests in Other Entities covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27 Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities

IFRS 13 Fair Value Measurement which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements

These standards are effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted The company is reviewing the standards to determine their effect on the company's financial reporting.

In June 2011, the IASB issued amendments to two standards

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income that require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification

Amendments IAS 19 Employee Benefits - these require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach', interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate, and all past service costs to be recognised immediately when a scheme is curtailed or amended

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

p) Accounting developments (continued)

These amendments are effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted The company is reviewing the amendments to determine their effect on the company's financial reporting

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

The depreciation charge for operating lease assets shown in the accounts is dependent upon the residual value ascribed to the asset as described in note 1f) above

3. Revenue

	2011 $'000	2010 $'000
Finance lease income		
Rents receivable	-	537
Amortisation	-	(432)
	-	105
Operating lease rental	51,897	43,867
Operating lease contingent rental income/(expense)	(6,363)	(6,512)
Other operating lease income	346	176
	45,880	37,636

4. Operating income

	2011 $'000	2010 $'000
Fee Income	-	4
Other income	807	-
	807	4

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Operating expenses

	2011 $'000	2010 $'000
Fees and commissions	**3,594**	342
Exchange losses	**3**	84
Management fees paid to group undertakings – immediate parent company	**200**	113
Other charges	**3**	4
	3,800	543

Included in fees and commissions is $2,618,000 (2010 $nil) paid from the company to the intermediate parent company, and $757,000 (2010 $332,000) to a fellow subsidiary

Staff costs, number of employees and directors' emoluments
All staff and directors were employed by The Royal Bank of Scotland plc ("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

Auditor's remuneration	2011 $'000	2010 $'000
Auditor's remuneration – audit services (included within the management fee shown above)	**10**	3

6. Finance costs

	2011 $'000	2010 $'000
Interest on loans from group undertakings – intermediate parent company	**10,516**	8,945
Finance charges in respect of finance leases payable	**3,100**	3,340
	13,616	12,285

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax

	2011 $'000	2010 $'000
Current taxation		
UK corporation tax credit for the year	**(10,722)**	(5,130)
Over provision in respect of prior periods	**-**	(7)
	(10,722)	(5,137)
Deferred taxation		
Charge for the year	**15,223**	9,568
Impact of tax rate changes	**(3,037)**	(1,162)
Under provision in respect of prior periods	**-**	6
	12,186	8,412
Tax charge for the year	**1,464**	3,275

The current tax charge includes amounts receivable from group companies for group relief

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 26 5% (2010 standard tax rate 28%) as follows

	2011 $'000	2010 $'000
Expected tax charge	**5,414**	4,795
Reduction in deferred tax following change in rate of UK corporation tax	**(3,950)**	(1,519)
Adjustments in respect of prior periods	**-**	(1)
Actual tax charge for the year	**1,464**	3,275

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 and to reduce certain rates of capital allowances 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, together with the capital allowance rate changes, 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 25%

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Property, plant and equipment

	Assets held for use in operating leases $'000
Cost	
1 January 2011	**459,778**
Additions	**221,624**
31 December 2011	**681,402**
Accumulated depreciation and impairment	
1 January 2011	**42,998**
Depreciation charge for the year	**8,842**
31 December 2011	**51,840**
Cost	
1 January 2010	459,691
Additions	87
31 December 2010	459,778
Accumulated depreciation and impairment	
1 January 2010	35,309
Depreciation charge for the year	7,689
31 December 2010	42,998
Net book value	
31 December 2011	**629,562**
31 December 2010	416,780

Included above is $88,014,000 of additions purchased from a fellow subsidiary

Leased plant and machinery
At 31 December 2011 the net carrying amount of plant and machinery leased from third parties was $71,186,000 (2010 $72,456,000) The leased equipment secures lease obligations (see note 16)

9. Investments in subsidiaries

Investments in group undertakings are carried at cost less impairment Movements during the year were as follows

	2011 $	2010 $
At 1 January and 31 December	**100**	100

The subsidiary undertakings of the company are shown below

Name of subsidiary	Country of incorporation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
RBS Labuan Leasing 1 Limited	Malaysia	100	100	Intermediate party of the holding company in the lease of an aircraft

The accounting reference date of RBS Labuan Leasing 1 Limited is 31 December

10. Operating lease arrangements

At the balance sheet date, the company had contracted with customers for the following future minimum lease rentals receivable under non-cancellable operating leases

	Within 1 year $'000	Between 1 and 5 years $'000	After 5 years $'000	Total $'000
2011	**58,441**	**203,717**	**108,121**	**320,279**
2010	43,773	125,926	80,420	250,119

Nature of operating lease assets in the balance sheet:	2011 $'000	2010 $'000
Aviation	**320,279**	250,119

11. Loan receivables

	2011 $'000	2010 $'000
Current		
Amounts owed by group undertakings – intermediate parent company	**58,955**	45,660

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

12. Trade and other receivables

	2011 $'000	2010 $'000
Trade receivables	47	167
Other receivables	5	-
	52	167

13. Prepayments, accrued income and other assets

	2011 $'000	2010 $'000
Accrued income	622	685
Group relief receivable from group undertaking – immediate parent company	5,636	229
	6,258	914

14. Borrowings

	2011 $'000	2010 $'000
Overdrafts from group banks - intermediate parent company	-	66
Loans from group undertakings - intermediate parent company	531,446	334,436
Other loans from group undertakings - fellow subsidiary	1,730	-
	533,176	334,502
Current	82,691	16,376
Non-current	450,485	318,126
	533,176	334,502

15. Trade and other payables

	2011 $'000	2010 $'000
Trade creditors	15,626	6,823
Other payables	19	187
	15,645	7,010

	2011 $'000	2010 $'000
Current	4,387	3,086
Non-current	11,258	3,924
	15,645	7,010

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Obligations under finance leases

	Year in which payment is expected Within 1 year $'000	Between 1 and 5 years $'000	After 5 years $'000	Total $'000
2011				
Future minimum lease payments	**6,931**	**29,054**	**30,918**	**66,903**
Unrecognised finance cost	**(2,246)**	**(7,753)**	**(3,381)**	**(13,380)**
Net carrying value	**4,685**	**21,301**	**27,537**	**53,523**
2010				
Future minimum lease payments	6,900	28,976	37,923	73,799
Unrecognised finance cost	(2,436)	(8,717)	(4,947)	(16,100)
Net carrying value	4,464	20,259	37,976	57,699

	2011 $'000	2010 $'000
Current	**4,685**	4,464
Non-current	**48,838**	53,235
	53,523	57,699

The company has acquired 2 aircraft under finance lease The average term of the finance leases is 12 years

The interest rate inherent in the leases is determined at the contract date for all the lease term The average effective interest rate contracted approximates 4 7% p a (2010 4 7%) The interest rate on the finance lease is fixed at the contract date and no arrangements have been entered into for contingent rental payments

17. Accruals, deferred income and other liabilities

	2011 $'000	2010 $'000
Accruals – intermediate parent company	**624**	870
Deferred income	**625**	-
	1,249	870

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Deferred tax

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

	Capital Allowances $'000
At 1 January 2010	32,581
Charge to income	8,412
At 31 December 2010	40,993
Charge to income	**12,186**
At 31 December 2011	**53,179**

19. Financial instruments and risk management

(i) Fair value

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

The fair value of loans and receivables and amortised cost liabilities is estimated by discounting expected future cash flows using current interest rates

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 liabilities				
Obligations under finance lease	**53,523**	**62,862**	57,699	73,798
Borrowings	**533,176**	**558,354**	334,502	341,384

The fair value of financial instruments that are not carried at fair value on the balance sheet is considered not to be materially different to the carrying amounts

(ii) Financial risk management

The principal risks associated with the company's businesses 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial instruments and risk management (continued)

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

2011	Fixed rate $'000	Variable rate $'000	Non-interest earning $'000	Total $'000
Loan receivables	-	58,955	-	58,955
Trade and other receivables	-	-	52	52
Prepayments, accrued income and other assets	-	-	6,258	6,258
Cash	-	3,357	-	3,357
	-	62,312	6,310	68,622
Financial liabilities				
Borrowings	396,611	134,835	1,730	533,176
Trade and other payables	-	-	15,645	15,645
Accruals and other liabilities		-	623	623
Obligations under finance leases	53,523	-	-	53,523
	450,134	134,835	17,998	602,967
Net financial liabilities	(450,134)	(72,523)	(11,688)	(534,345)

2010	Fixed rate $'000	Variable rate $'000	Non-interest earning $'000	Total $'000
Financial assets				
Loan receivables	-	45,660	-	45,660
Trade and other receivables	-	-	167	167
Prepayments, accrued income and other assets	-	-	914	914
	-	45,660	1,081	46,741
Financial liabilities				
Borrowings	188,572	145,930	-	334,502
Trade and other payables	-	-	7,010	7,010
Accruals and other liabilities	-	-	870	870
Obligations under finance leases	57,699	-	-	57,699
	246,271	145,930	7,880	400,081
Net financial assets/(liabilities)	(246,271)	(100,270)	(6,799)	(353,340)

19. Financial instruments and risk management (continued)

Interest rate risk (continued)

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year

If interest rates had been 0 5% (2010 0 5%) higher and all other variables were held constant, the company's profit before tax for the year would have decreased by $295,000 (2010 increased by $130,000) This is mainly due to the company's exposure to interest rates on its variable rate borrowings and variable rate customer balances There would be no other material impact on equity

Currency risk

The company does not maintain material non-trading open currency positions It is the company's policy to match fund the structural foreign currency exposure arising from net asset value with borrowings in the same currency

Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial instruments and risk management (continued)

Credit risk (continued)

Maximum credit exposure and neither past due nor impaired

Sector	2011 $'000	2010 $'000
Group undertakings	67,953	45,889
Aviation	622	852
Other	29	-
	68,604	46,741
Amounts past due		
0-1 Month	18	-
Maximum credit exposure	68,622	46,741

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

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities.

Management focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations It is undertaken within limits and other policy parameters set by Group Asset and Liability Management Committee (GALCO)

Financial Liabilities

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

2011	0 – 3 months $'000	4 – 12 months $'000	1 – 3 years $'000	4 – 5 years $'000	6 - 10 years $'000	11 - 20 years $'000
Borrowings	41,700	54,550	119,757	82,051	309,780	-
Obligations under finance lease	-	6,931	14,491	14,564	30,918	-
Trade and other payables	3,995	392	802	2,228	6,308	1,920
Accruals	623	-	-	-	-	-
	46,318	61,873	135,050	98,843	347,006	1,920

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial instruments and risk management (continued)

Financial Liabilities (continued)

2010	0 – 3 months $'000	4 – 12 months $'000	1 – 3 years $'000	4 – 5 years $'000	6 - 10 years $'000	11 - 20 years $'000
Borrowings	7,153	17,123	94,144	109,717	134,925	-
Obligations under finance lease	-	6,900	14,452	14,524	37,923	-
Trade and other payables	3,086	-	-	1,346	2,578	-
Accruals	870	-	-	-	-	-
	11,109	24,023	108,596	125,587	175,426	-

The company's intra-group liabilities may in certain circumstances become repayable on demand pursuant to the terms of the capital support deed (see note 23 - commitments and contingent liabilities)

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

20. Share capital

		2011 $	2010 $
Authorised:			
100	**Deferred shares of £1**	**193**	193
1,000	**Ordinary shares of $1**	**1,000**	1,000
		1,193	1,193
Allotted, called up and fully paid:			
Equity shares			
2	**Deferred shares of £1**	**4**	4
100	**Ordinary shares of $1**	**100**	100
		104	104

The deferred ordinary shares carry no dividend or voting rights and have no preferential rights to return of capital on winding up The company may repurchase the shares at any time for an aggregate consideration of $1

The value attributed to sterling share capital is based on the exchange rate prevailing at the date of issue

Both classes of ordinary shares carry no right to fixed income

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Cash and cash equivalents

	2011 $'000	2010 $'000
Cash held with group undertaking – intermediate parent company	3,357	-
Deposits with banks/group companies placed at within 3 months original maturity		
Group – intermediate parent company (note 11)	58,955	45,660
	62,312	45,660
Overdrafts		
Amounts owed to group banks - intermediate parent company (note 14)	-	(66)
Cash and cash equivalents per cash flow statement	62,312	45,594

22. 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

23. Commitments and contingent liabilities

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

24. Related parties

UK Government

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Related parties (continued)

Group undertakings

The company's immediate parent company is Royal Bank Leasing Limited, a company incorporated in Great Britain and registered in Scotland As at 31 December 2011, The Royal Bank of Scotland plc heads the smallest group in which the company is consolidated Copies of the consolidated accounts of this company may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh EH12 1HQ

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland As at 31 December 2011, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated Copies of the consolidated accounts of this company 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

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

25. Post balance sheet events

On 16 January 2012, the company's shareholders reached agreement to sell the entire share capital of the company to Sumitomo Mitsui Banking Corporation, subject to certain regulatory approvals The sale is expected to become effective on or before 30 September 2012