Company Registered No: 05039983

RBSSAF (16) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2010

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	S J Caterer P A Cheesman P J Sullivan L C Varnavides
SECRETARY:	C J Whittaker
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 December 2010

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 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 23 to the financial statements

Financial performance

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

Revenue fell by $12,416,000 (2009 $8,801,000) and finance costs fell by $8,431,000 (2009 $13,833,000) The profit for the year was $4,455,000 (2009 $3,855,000), an increase of 15 6% over 2009

A dividend of $4,700,000 was paid on 25 March 2010 (2009 $nil) and a dividend of $5,000,000 in respect of 2011 was paid on 23 June 2011

At the end of the year, the balance sheet showed total assets of $728,077,000 (2009 $806,995,000), including income-generating assets comprising leased assets of $716,902,000 (2009 $789,126,000) and loans and receivables of $11,175,000 (2009 $17,682,000) together representing a decrease of 9 8% Total equity was $5,463,000 (2009 $5,708,000)

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

DIRECTORS' REPORT (continued)

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 except where noted below, are listed on page 2

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

	Appointed	Resigned
Directors		
A Georgiou		10 December 2010
P A Cheesman	24 January 2011	
G R Locker		2 September 2011
P J Sullivan	19 September 2011	

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

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

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

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

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

AUDITOR

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

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

S J Caterer
Director
Date **21 September 2011**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBSSAF (16) LIMITED

We have audited the financial statements of RBSSAF (16) Limited ('the company') for the year ended 31 December 2010 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 23 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 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

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 RBSSAF (16) 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

Simon Cleveland

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

27th September 2011

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

Continuing operations	**Notes**	**2010 $'000**	**2009 $'000**
Revenue	3	3,531	15,947
Operating income	4	75	105
Operating expenses	5	(89)	(105)
Operating profit		3,517	15,947
Finance income	6	43	133
Finance costs	7	(2,295)	(10,726)
Profit before tax	8	1,265	5,354
Tax credit/(charge)	9	3,190	(1,499)
Profit and total comprehensive income for the year		4,455	3,855

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
as at 31 December 2010

	Notes	2010 $'000	2009 $'000
Assets			
Non-current assets			
Finance lease receivables	11	608,596	708,935
Current assets			
Finance lease receivables	11	108,306	80,191
Loan receivables	12	11,175	17,682
Trade and other receivables	13	-	187
		119,481	98,060
Total assets		728,077	806,995
Liabilities			
Current liabilities			
Borrowings from group undertakings	15	44,407	60,254
Trade and other payables	16	6,820	7,916
Accruals, deferred income and other liabilities	17	546	916
		51,773	69,086
Non-current liabilities			
Borrowings from group undertakings	15	575,165	646,104
Deferred tax liability	18	95,676	86,097
		670,841	732,201
Total liabilities		722,614	801,287
Equity			
Share capital	20	-	-
Retained earnings		5,463	5,708
Total equity		5,463	5,708
Total liabilities and equity		728,077	806,995

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors on 21 September 2011 and signed on its behalf by

S J Caterer
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Note	Share capital $'000	Retained earnings $'000	Total $'000
At 1 January 2009		-	1,853	1,853
Profit for the year		-	3,855	3,855
At 31 December 2009		-	5,708	5,708
Profit for the year		-	4,455	4,455
Dividends paid	10	-	(4,700)	(4,700)
At 31 December 2010		-	5,463	5,463

Total comprehensive income for the year of $4,455,000 (2009 $3,855,000) 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 2010

	Notes	2010 $'000	2009 $'000
Operating activities			
Profit for the year before tax		1,265	5,354
Adjustments for:			
Finance income		(43)	(133)
Finance costs		2,295	10,726
Operating cash flows before movements in working capital		3,517	15,947
Decrease/(increase) in finance lease receivables		72,224	(97,185)
Decrease/(increase) in trade and other receivables		187	(186)
(Decrease)/increase in trade and other payables		(1,096)	1,921
Net cash from/(used by) operating activities before tax		74,832	(79,503)
Tax received from group undertakings – immediate parent company		12,446	18,602
Net cash flows from/(used by) operating activities		87,278	(60,901)
Cash flows from investing activities			
Interest received from group undertakings – immediate parent company		43	133
Net cash flows from investing activities		43	133
Cash flows from financing activities			
Repayment of borrowings to group undertakings – immediate parent company		(86,254)	-
Proceeds of new borrowings from group undertakings – immediate parent company		-	76,813
Interest paid to group undertakings – immediate parent company		(2,342)	(17,363)
Dividends paid		(4,700)	-
Net cash flows used by financing activities		(93,296)	59,450
Net decrease in cash and cash equivalents		(5,975)	(1,318)
Cash and cash equivalents at beginning of year		17,082	18,400
Cash and cash equivalents at end of year	14	11,107	17,082

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 January 2010 They have had no material effect on the company's financial statements for the year ended 31 December 2010

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

Transactions in other currencies are translated into US dollars at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the balance sheet date

Foreign exchange differences arising on translation are reported in profit or loss Non-monetary items denominated in foreign currencies that are stated at fair value are translated into US dollars at the foreign exchange rates ruling at the dates the values are determined

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies - continued

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

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

e) 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

1. Accounting policies - continued

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

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'

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies – continued

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)

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

2. Critical accounting policies and key sources of estimation uncertainty

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

Leased assets

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

3. Revenue

	2010 \$'000	**2009 \$'000**
Finance lease income		
Rents receivable	82,520	73,928
Amortisation	(46,348)	(37,021)
Contingent rentals	(32,641)	(20,960)
	3,531	15,947

4. Operating income

	2010 $'000	2009 $'000
Other income	75	105

5. Operating expenses

	2010 $'000	2009 $'000
Loss on disposal of property, plant and equipment	-	1
Exchange losses	4	10
Management fees	85	94
	89	105

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

6. Finance income

	2010 $'000	2009 $'000
On loans and receivables		
From group undertakings – immediate parent company	43	133

7. Finance costs

	2010 $'000	2009 $'000
Interest on loans from group undertakings – immediate parent company	2,295	10,726

8. Operating profit before tax

	2010	2009
Operating profit before tax is stated after charging	$'000	$'000
Auditor's remuneration – audit services included in management fee above	8	6

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Tax

	2010 $'000	2009 $'000
Current taxation		
UK corporation tax credit for the year	(12,769)	(20,683)
Deferred taxation		
Charge for the year	12,654	22,182
Impact of rate change from 28% to 27%	(3,075)	-
	9,579	22,182
Tax (credit)/charge for the year	(3,190)	1,499

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

	2010 $'000	2009 $'000
Expected tax charge	354	1,499
Reduction in deferred tax following change in rate of UK corporation tax	(3,544)	-
Actual tax (credit)/charge for the year	(3,190)	1,499

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 assets and liabilities have been calculated at the rate of 27%

The impact of the post-balance sheet date changes in tax rate are estimated as giving rise to a tax credit of $7,087,000, which will be recognised in the accounts for 2011

10. Ordinary dividends

	2010 $'000	2009 $'000
Final dividend paid to group undertakings – immediate parent company	4,700	-

Dividends of $5,000,000 have been paid since 31 December 2010 to the date of approval of these accounts (2009 $nil)

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Finance lease receivables

	Within 1 year $'000	Between 1 and 5 years $'000	Total $'000
2010			
Future minimum lease payments	109,773	665,495	775,268
Unearned finance income	(1,467)	(56,899)	(58,366)
Carrying value	108,306	608,596	716,902
2009			
Future minimum lease payments	82,605	820,810	903,415
Unearned finance income	(2,414)	(111,875)	(114,289)
Carrying value	80,191	708,935	789,126

	2010 $'000	2009 $'000
Current	108,306	80,191
Non-current	608,596	708,935
	716,902	789,126

	2010 $'000	2009 $'000
Contingent rent recognised in income	(32,641)	(20,960)

The Company has entered into finance leasing arrangements for ships The average term of the finance lease entered into is 5 years

Unguaranteed residual values of assets leased under finance leases at the balance sheet date are estimated at $nil (2009 $nil)

The average effective interest rate in relation to finance lease agreements approximates 4 5% (2009 5 4%)

12. Loan receivables

	2010 $'000	2009 $'000
Amounts owed by group undertakings – immediate parent company	11,175	17,682

The average effective interest rate over amounts owed by group undertakings approximates 0 26% (2009 0 23%)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Trade and other receivables

	2010 $'000	2009 $'000
Other receivables	-	187

14. Cash

	2010 $'000	2009 $'000
Deposits with banks placed at within 3 months original maturity		
Group – immediate parent company	11,175	17,682
Overdrafts		
Amounts owed to group banks – intermediate parent company	(68)	(600)
Cash and cash equivalents per cash flow statement	11,107	17,082

15. Borrowings

	2010 $'000	2009 $'000
Overdrafts from group banks – intermediate parent company	68	600
Loans from group banks – immediate parent company	619,504	705,758
	619,572	706,358
Current	44,407	60,254
Non-current	575,165	646,104
	619,572	706,358

16. Trade and other payables

	2010 $'000	2009 $'000
Trade creditors	-	3
Other payables	6,820	7,913
	6,820	7,916

17. Accruals, deferred income and other liabilities

	2010 $'000	2009 $'000
Accruals owed to group undertakings – immediate parent company	392	439
Corporation tax payable	154	-
Group relief – immediate parent company	-	477
	546	916

18. Deferred tax

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

	Capital allowances $'000
At 1 January 2009	63,915
Charge to income	22,182
At 31 December 2009	86,097
Charge to income	9,579
At 31 December 2010	95,676

The Finance Act 2010 has reduced the corporation tax rate from 28% to 27% with effect from 1 April 2011 As a consequence the closing deferred tax liabilities have been recognised at an effective rate of 27%

19. 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

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

	2010 Carrying value $'000	2010 Fair value $'000	2009 Carrying value $'000	2009 Fair value $'000
Financial assets				
Finance lease receivables	716,902	682,657	789,126	752,243

(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

Finance lease receivables may be based on fixed and/or floating rates These are funded primarily through balances owed to group undertakings which are due primarily on demand and a variable rate basis The repricing maturity profile of the financial assets of the company may be different to that of the associated borrowings and hence give potential exposure to interest rate risk

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

2010	Variable rate $'000	Non-interest earning $'000	Total $'000
Financial assets			
Finance lease receivables	716,902	-	716,902
Loan receivables	11,175	-	11,175
	728,077	-	728,077
Financial liabilities			
Borrowings	619,572	-	619,572
Trade and other payables	-	6,820	6,820
Accruals, deferred income and other liabilities	-	546	546
	619,572	7,366	626,938
Net financial assets/(liabilities)	108,505	(7,366)	101,139
2009			
Financial assets			
Finance lease receivables	789,126	-	789,126
Loan receivables	17,682	-	17,682
Trade and other receivables	-	187	187
	806,808	187	806,995
Financial liabilities			
Borrowings	706,358	-	706,358
Trade and other payables	-	7,916	7,916
Accruals, deferred income and other liabilities	-	916	916
	706,358	8,832	715,190
Net financial assets/(liabilities)	100,450	(8,645)	91,805

19. Financial instruments and risk management – continued

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

If interest rates had been 0 5% higher and all other variables were held constant, the company's profit before tax for the year would have increased by $715,000 (2009 profit before tax for the year would have increased by $1,309,000) This is mainly due to the company's exposure to interest rates on its variable rate borrowings There would be no other material impact on equity

Currency risk
The company does not maintain material non-trading open currency positions

The company undertakes certain transactions denominated in foreign currencies, hence exchange rate fluctuations arise The company's policy is normally to match foreign currency receivables with borrowings in the same currency

The company is mainly exposed to US dollar and pound sterling currencies

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

Maximum credit exposure and neither past due nor impaired

Sector	No of counterparties	2010 $'000	2009 $'000
Shipping	1	716,902	789,126
Finance lease receivables		716,902	789,126
Group undertakings		11,175	17,869
Maximum credit exposure		728,077	806,995

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

	0 – 3 months $'000	4 – 12 months $'000	1 – 3 years $'000	4 – 5 years $'000
2010				
Borrowings	**13,583**	**33,474**	**503,368**	**78,244**
Trade and other payables	**6,820**	-	-	-
Accruals, deferred income and other liabilities	**546**	-	-	-
	20,949	**33,474**	**503,368**	**78,244**
2009				
Borrowings	17,422	45,404	521,911	149,465
Trade and other payables	7,913	-	-	-
Accruals, deferred income and other liabilities	916	-	-	-
	26,251	45,404	521,911	149,465

19. Financial instruments and risk management – continued

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

		2010 $	2009 $
Authorised			
100	Deferred shares of £1	200	200
1,000	Ordinary shares of $1	1,000	1,000
		1,200	1,200
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 shares carry no dividend or voting rights and have no preferential rights to return of capital on winding up

The ordinary shares carry no right to fixed income

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

21. Capital resources

The company's capital consists of equity comprising issued share capital, retained earnings and loans from group undertakings 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)

22. 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

23. Post balance sheet events

On 29 June 2011, the company, together with other members of the RBSG 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