

Company Registration No: 06838433

RBS SME INVESTMENTS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010

Group Secretariat
The Royal Bank of Scotland Group plc
Gogarburn
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RBS SME INVESTMENTS LIMITED

06838433

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

T J D Boag
M J Hannay
S B Matthews
K A Winup

SECRETARY

G R M Stewart

REGISTERED OFFICE.

1 Princes Street
London
EC2R 8PB

AUDITOR

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

Registered in England and Wales

DIRECTORS' REPORT

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

The comparative period shows the results from 5 March 2009 (the date of incorporation) to 31 December 2009

ACTIVITIES AND BUSINESS REVIEW**Principle activity**

The principal activity of the Company is to manage investments

The directors do not anticipate any material change in either the type or level of activities of the Company

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

Business review

The Company's principle investments comprise debt and equity participations in collective investment schemes in unquoted businesses and for that purpose it assumes obligations as a limited partner in limited partnerships. The Company's investment strategy will be guided by its immediate parent company.

Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 7. The operating loss before taxation for the year was £1,065,950 (2009 £13,444 loss). The retained loss for the year £1,044,719 (2009 £9,680 loss).

At the end of the year total assets were £3,535,355 (2009 £2,748,329)

Dividends

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

Principal risks and uncertainties

The Company is funded by facilities from The Royal Bank of Scotland plc ("RBS plc")

The Company seeks to minimise its exposure to external financial risks other than credit risk, further information on financial risk management policies and exposures is disclosed in Note 10

Going concern

The directors, having made such enquiries as they considered appropriate and having obtained confirmation from The Royal Bank of Scotland plc of their commitment to continue supporting the company for the foreseeable future, have prepared the financial statements on a going concern basis. They also considered the financial statements of the Group for the year ended 31 December 2010, approved on 23 February 2011, which were prepared on a going concern basis.

DIRECTORS' REPORT (continued)**Directors and secretary**

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

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

Directors	Appointed	Resigned
M Elwood	-	6 April 2010
A S Devine	-	13 April 2010
M J Hannay	13 April 2010	-
S B Matthews	13 April 2010	-
T J D Boag	28 January 2011	-

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

Disclosure of information to auditor

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

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

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

DIRECTORS' REPORT (continued)**Directors' indemnities**

In terms of section 236 of the Companies Act 2006, S B Mathews and K Winup have been granted Qualifying Third Party Indemnity Provisions by RBS plc

Policy and practice on payment of creditors

The Company follows the policy and practice on payment of creditors determined by the Group, as outlined below

The Group is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the Group's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

Post balance sheet events

On 18 March 2011 the Company signed a Limited Partnership Agreement whereby it committed to invest up to £9.4m in the Scottish Loan Fund, which will support small and medium sized businesses in Scotland by providing debt finance. Under the terms of the agreement, Scottish Enterprise will hold a majority equity stake with 3 high street banks, being The Royal Bank of Scotland plc (via the Company), Santander UK plc and Lloyds Banking Group plc, each holding a stake of fractionally less than 10%.

On 12 May 2011 the Company signed a Master Subscription Agreement whereby it committed to invest up to £300m in Business Growth Fund plc. This is separate from a commitment made by the Company to consider an investment of an additional £250m in Business Growth Fund plc if it provides evidence of sufficient demand for this funding on commercial terms. Business Growth Fund plc will provide equity finance for small and medium sized UK businesses and is financially backed by Barclays, HSBC, Lloyds Banking Group, The Royal Bank of Scotland, and Standard Chartered. Together the banks have committed a total investment fund of up to £2.5 billion.

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.

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



Kathryn Anne Winup
Director
Date 30 June 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS SME INVESTMENTS LIMITED

We have audited the financial statements of RBS SME Investments 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 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by Companies Act 2006

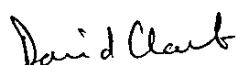
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS SME INVESTMENTS 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



David Claxton, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh
Scotland
30/06/2011

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

Continuing operations	Note	2010 £	Period to 31 December 2009 £
Interest payable		(70,825)	(8,444)
Operating expenses	3	(5,000)	(5,000)
Operating loss before impairment losses		(75,825)	(13,444)
Impairment losses	9	(990,125)	-
Operating loss before tax		(1,065,950)	(13,444)
Tax credit	4	21,231	3,764
Loss and comprehensive loss for the year		(1,044,719)	(9,680)

The accompanying notes on pages 11 to 20 form an integral part of these financial statements

The loss for the period is attributable to the equity shareholders of the Company and is from continuing operations

BALANCE SHEET

as at 31 December 2010

	Note	2010 £	2009 £
Assets			
Amounts due from other Group entity	14	1	1
Equity shares	5	3,514,123	2,744,564
Current tax asset	4	21,231	3,764
Total assets		3,535,355	2,748,329
Liabilities			
Borrowings	6,14	4,532,896	2,751,261
Amounts due to other Group entity	14	63	63
Accruals	7	56,794	6,684
Total liabilities		4,589,753	2,758,008
Equity			
Share capital	11	1	1
Retained deficit		(1,054,399)	(9,680)
Total equity		(1,054,398)	(9,679)
Total liabilities and equity		3,535,355	2,748,329

The accompanying notes on pages 11 to 20 form an integral part of these financial statements

The financial statements of RBS SME Investments Limited, were approved by the Board of directors and authorised for issue on 30 June 2011 and signed on its behalf by



Kathryn Anne Winup
Director

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

	Share capital	Retained deficit	Total
	£	£	£
At 5 March 2009	-	-	-
Issue of share capital	1	-	1
Loss for the period	-	(9,680)	(9,680)
At 31 December 2009	1	(9,680)	(9,679)
Loss for the year	-	(1,044,719)	(1,044,719)
At 31 December 2010	1	(1,054,399)	(1,054,398)

The accompanying notes on pages 11 to 20 form an integral part of these financial statements

CASH FLOW STATEMENT

for the year ended 31 December 2010

	Note	2010 £	Period to 31 December 2009 £
Operating activities			
Operating loss before tax		(1,065,950)	(13,444)
Adjustment for			
Interest payable		70,825	8,444
Impairment on investments	9	990,125	-
Operating cash flows before movements in working capital		(5,000)	(5,000)
Movement in amounts due from other Group entity	14	-	(1)
Movement in amounts due to other Group entity	14	-	63
Movement in accruals	7	5,000	5,000
Net cash flows from operating activities before tax		-	62
Interest paid		(25,715)	(6,760)
Tax received	4	3,764	-
Net cash flows used by operating activities		(21,951)	(6,698)
Investing activities			
Movement in equity shares	5	(1,759,684)	(2,744,564)
Net cash flows used by investing activities		(1,759,684)	(2,744,564)
Financing activities			
Issue of ordinary share	11	-	1
New bank loans raised	6	2,700,000	-
Net cash flows from financing activities		2,700,000	1
Net increase/(decrease) in cash and cash equivalents		918,365	(2,751,261)
Cash and cash equivalents as at 1 January		(2,751,261)	-
Cash and cash equivalents as at 31 December	6	(1,832,896)	(2,751,261)

The accompanying notes on pages 11 to 20 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS**1 Accounting policies****a) Presentation of the financial statements**

The financial statements which should be read in conjunction with the Directors' Report are prepared on a going concern basis and in accordance with IFRS issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the European Union (EU)

The financial statements are prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historic cost is generally based on the fair value of the consideration given in exchange for the assets. The principal policies adopted are set out below.

The Company is incorporated in the UK and registered in England and Wales.

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 31 December 2010.

b) Foreign currencies

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

c) Revenue recognition

Interest income on financial assets that are classified as loans and receivables or available-for-sale and interest expense on financial liabilities are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

d) Taxation

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

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

e) Financial assets

Financial assets are classified as loans and receivables or available-for-sale. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivable

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. Loans and receivables are initially recognised at fair value plus directly related costs. They are subsequently measured at amortised cost using the effective interest method (see policy c) less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

e) Financial assets (continued)

Available-for-sale

Financial assets that are not classified as loans and receivables are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Equity investments are initially recognised at cost and are subsequently revalued in accordance with the International Private Equity and Venture Capital ("IPEVC") valuation guidelines. Impairment losses are recognised in profit or loss together with interest calculated using the effective interest method (see policy c). Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholder's equity until disposal, when the cumulative gain or loss is recognised in profit or loss.

f) 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 are impaired. Financial assets are 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.

g) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest rate method (see policy c).

h) Derecognition of financial assets and liabilities

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Company either (a) transfers the contractual rights to receive the asset's cash flows, or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the company assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the company assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the company has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

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

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand or overdrawn and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

j) 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. The standard is effective for annual periods beginning on or after 1 January 2013, early application is permitted.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1 Accounting policies (continued)****j) Accounting developments (continued)**

This standard makes major changes to the framework for the classification and measurement of financial assets and will have a significant effect on the Company's financial statements. The Company is assessing this impact which is likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project.

In May 2011 the IASB issued IFRS 13, 'Fair Value Measurement' defining fair value, setting out a single IFRS framework for measuring fair value and requiring disclosures about fair value measurements. The standard is effective for annual reporting periods beginning on or after 1 January 2013, early application is permitted.

There are a number of other changes to IFRS that were in issue but not yet effective. The adoption of these changes in future periods is not expected to have a material effect on the company's accounting policies or financial statements.

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 Board 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.

Fair value - financial instruments

Financial instruments classified as available-for-sale are recognised in the financial statements at fair value. Unrealised gains and losses on available-for sale financial assets are recognised directly in equity unless an impairment loss is recognised.

Financial instruments classified as designated as at fair value through profit or loss are recognised in the financial statements at fair value. Changes in fair value are recognised in profit or loss as they arise.

Details of financial instruments carried at fair value are given in note 8 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Operating expenses

	2010 £	Period ended 31 December 2009 £
Auditors' remuneration – audit services	<u>5,000</u>	<u>5,000</u>

All staff and directors were employed by the Group, the ultimate parent company, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The directors of the Company do not receive remuneration for specific services provided to the Company.

The auditors' remuneration for statutory audit work for the Company was borne by Company. No remuneration was paid to the auditors for non-audit work (2009: £nil).

4. Taxation

	2010 £	Period ended 31 December 2009 £
Current taxation		
UK corporation tax credit for the period	<u>21,231</u>	<u>3,764</u>

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

	2010 £	Period ended 31 December 2009 £
Expected tax credit	298,466	3,764
Non deductible items	(277,235)	-
Actual tax credit for the year	<u>21,231</u>	<u>3,764</u>

The changes to tax rates proposed in the Budget on 22 June 2010 and 23 March 2011 are not expected to have a material effect on the Company.

5. Equity shares

	2010 £	Period ended 31 December 2009 £
At 1 January	2,744,564	-
Additions of available-for-sale assets	1,759,684	2,744,564
Impairment	(990,125)	-
At 31 December	<u>3,514,123</u>	<u>2,744,564</u>

The Company invested in Capital for Enterprise Fund L.P. which supports small businesses and projects by providing finance. Under the scheme the UK Government, a related party trading under the name Department for Business Innovation and Skills, holds the majority shareholding with four high street banks each contributing and holding an 8.33% stake. The banks involved are The Royal Bank of Scotland plc (via the Company), Barclays Bank PLC, HSBC Bank plc and Lloyds Banking Group plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Borrowings

	2010 £	Period ended 31 December 2009 £
Loan from group banks – RBS plc	2,700,000	-
Bank overdraft – RBS plc	1,832,896	2,751,261
	4,532,896	2,751,261

The loan from the RBS plc is unsecured and interest bearing at 1.69% per annum and is repayable on 11 January 2012

The bank overdraft is from RBS plc and is repayable on demand. The overdraft limit is £3,250,000 and at the year end the Company had access to a further £1,417,104 (2009: £498,739) of funds

7. Accruals

	2010 £	Period ended 31 December 2009 £
Interest payable	46,794	1,684
Audit fees	10,000	5,000
	56,794	6,684

8 Financial instruments

The following tables analyse the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39. Non-financial assets and liabilities are shown separately

	Available- for-sale £	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
2010					
Assets					
Amounts due from other Group entity	-	1	-	-	1
Equity shares	3,514,123	-	-	-	3,514,123
Current tax asset	-	-	-	21,231	21,231
	3,514,123	1	-	21,231	3,535,355
Liabilities					
Borrowings	-	-	4,532,896	-	4,532,896
Amounts due to other Group entity	-	-	63	-	63
Accruals	-	-	56,794	-	56,794
	-	-	4,589,753	-	4,589,753
Equity					(1,054,398)
					3,535,355

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial instruments (continued)

Period ended 31 December 2009	Available- for-sale £	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
Assets					
Amounts due from other Group entity	-	1	-	-	1
Equity shares	2,744,564	-	-	-	2,744,564
Current tax asset	-	-	-	3,764	3,764
	<u>2,744,564</u>	<u>1</u>	<u>-</u>	<u>3,764</u>	<u>2,748,329</u>
Liabilities					
Borrowings	-	-	2,751,261	-	2,751,261
Amounts due to other Group entity	-	-	63	-	63
Accruals	-	-	6,684	-	6,684
	<u>-</u>	<u>-</u>	<u>2,758,008</u>	<u>-</u>	<u>2,758,008</u>
Equity					(9,679)
					<u>2,748,329</u>

Remaining maturity	Less than 12 months £'000	More than 12 months £'000	Total £'000
2010			
Liabilities			
Borrowings	1,832,896	2,700,000	4,532,896
2009			
Liabilities			
Borrowings	2,751,261	-	2,751,261

The following table shows the financial instruments carried at fair value by valuation method

	Level 1 (1) £	Level 2 (2) £	Level 3 (3) £	Total £
2010				
Available-for-sale equity shares	-	-	3,514,123	3,514,123
Period ended 31 December 2009				
	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale equity shares	-	-	2,744,564	2,744,564

(1) Valued by reference to unadjusted quoted prices in active markets for identical assets and liabilities

(2) Valued by reference to observable market data, other than quoted market prices

(3) Valuation is based on the IPEVC guidelines (see accounting policy e)

A reconciliation from the opening balance to the closing balance has been separately disclosed in Note 5

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Financial assets – impairments

The following table shows the movement in the provision for impairment of available for sale assets

	2010 £	Period ended 31 December 2009 £
At 1 January	-	-
Charge to income	990,125	-
At 31 December	990,125	-

10. Risk management

The principle risks associated with the Company are as follows

Interest rate risk

Structural interest rate risk arises where assets and liabilities have different repricing maturities

The financial liabilities of the Company consist of amounts due to Group entities, Borrowings and third party accruals. The amounts due to Group entities and Borrowings do not have any significant interest rate risk as they are due primarily on demand or interest is repayable at a fixed rate. The third party trade payables do not have any significant interest rate risk as the Company follows the policy and practice on payment of creditors determined by the Royal Bank of Scotland Group plc as detailed in the directors' report.

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 risk 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
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment

The majority of the balances were with other Group entities and therefore the risk is considered minimal. All financial assets were due within one year.

Liquidity risk

The Company has no significant liquidity risk as it has access to financing facilities and support provided by fellow Group companies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Risk Management (continued)

Market risk

Market risk is defined as the risk of 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

The principal market risks to which the Company is exposed is interest rates and the fall in value of equity shares

11. Called up share capital

	2010 £	Period ended 31 December 2009 £
Authorised.		
1 Ordinary Share of £1 each	1	1
Issued and fully paid:		
1 Ordinary Share of £1 each	1	1

The company has one class of Ordinary Share which carry no right to fixed income

12. Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings, loans from group undertakings. The Company is a member of the Group 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.

13. Commitments

The Company is committed to investing a further £1,745,815 (2009 £3,505,499) in Capital for Enterprise Limited. These amounts can be drawn at anytime when available investment opportunities have been identified by the fund managers of Capital for Enterprise Limited L P.

Commitments which have been entered into with Capital for Enterprise Limited L P are not included within assets on the Balance Sheet.

14. 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 The Royal Bank of Scotland plc. Both companies are incorporated in Great Britain and registered in Scotland.

As at 31 December 2010, the Group heads the largest group in which the Company is consolidated and RBS plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

Transactions between the Company, the UK Government and UK Government controlled bodies, consisted solely of corporation tax and equity shares, which are disclosed in Notes 3 and 5 respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Related parties (continued)

Transactions with other Group companies in the year ended 31 December 2010 and period ended December 2009 comprised

Revenue with other Group companies

	2010 £	Period ended 31 December 2009 £
Expenses (Interest payable):		
Immediate parent The Royal Bank of Scotland plc	70,825	8,444

Balances with other Group companies in the period 1 January to 31 December 2010 comprised

	2010 £	2009 £
Assets:		
Immediate parent The Royal Bank of Scotland plc		
Amounts due from other Group entities	1	1
Other Department for Business Innovation and Skills Equity shares	3,514,123	2,744,565
Liabilities		
Parent The Royal Bank of Scotland plc		
Borrowings	4,532,896	2,751,261
Amounts due to other Group entities	63	63
Accruals	46,794	1,684
	4,579,753	2,753,008

Key management personnel

The Company is a subsidiary of the Group 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.

15 Post balance sheet events

On 18 March 2011 the Company signed a Limited Partnership Agreement whereby it committed to invest up to £9.4m in the Scottish Loan Fund, which will support small and medium sized businesses in Scotland by providing debt finance. Under the terms of the agreement, Scottish Enterprise will hold a majority equity stake with 3 high street banks, being The Royal Bank of Scotland plc (via the Company), Santander UK plc and Lloyds Banking Group plc, each holding a stake of fractionally less than 10%.

On 12 May 2011 the Company signed a Master Subscription Agreement whereby it committed to invest up to £300m in Business Growth Fund plc. This is separate from a commitment made by the Company to consider an investment of an additional £250m in Business Growth Fund plc if it provides evidence of sufficient demand for this funding on commercial terms. Business Growth Fund plc will provide equity finance for small and medium sized UK businesses and is financially backed by Barclays, HSBC, Lloyds Banking Group, The Royal Bank of Scotland, and Standard Chartered. Together the banks have committed a total investment fund of up to £2.5 billion.

NOTES TO THE FINANCIAL STATEMENTS (continued)**15. Post balance sheet events (continued)**

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.