

Company Registration No: 06838433

RBS SME INVESTMENTS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD FROM 5 MARCH 2009 TO
31 DECEMBER 2009

Group Secretariat
The Royal Bank of Scotland Group plc
Gogarburn
2nd Floor, House F
PO Box 1000
Edinburgh EH12 1HQ



REPORT AND FINANCIAL STATEMENTS 2009

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Melanie Jane Hannay
Steven Bruce Matthews
Kathryn Anne Winup

SECRETARY

Gary Robert McNeilly Stewart

REGISTERED OFFICE:

1 Princes Street
London
EC2R 8PB

AUDITORS.

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

Registered in England and Wales

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the period from 5 March 2009 to 31 December 2009

INCORPORATION

RBS SME Investments Limited ('the Company') was incorporated on 5 March 2009

ACTIVITIES AND BUSINESS REVIEW**Activity**

The principal activity of the Company is to manage investments

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 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 period*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 directors, anticipated a loss and are satisfied with the loss for the period of £9,680. No dividend was paid during the period and no dividend in respect of 2009 is proposed

The company's investments of £2,744,564 at 31 December 2009 are presented at fair value determined using financial models incorporating assumptions, judgements and estimates. The closing financial position showed total assets of £2,748,329

The Company is funded by facilities from The Royal Bank of Scotland plc. It 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 6

The directors, having made such enquiries as they considered appropriate have prepared the financial statements on a going concern basis. They considered the financial statements of The Royal Bank of Scotland Group plc for the year ended 31 December 2009, approved on 24 February 2010, which were prepared on a going concern basis

DIRECTORS' REPORT (continued)**SHARE CAPITAL**

The company was incorporated with a share capital of £1 consisting of one ordinary share of £1

DIRECTORS AND SECRETARY

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

From 5 March 2009 to date the following changes have taken place

| | Appointed | Resigned |
|------------------------------|------------------|-----------------|
| Directors | | |
| Alan Sinclair Devine | 5 March 2009 | 13 April 2010 |
| Michael Ellwood | 5 March 2009 | 6 April 2010 |
| Melanie Jane Hannay | 13 April 2010 | |
| Steven Bruce Matthews | 13 April 2010 | |
| Kathryn Anne Winup | 5 March 2009 | |
| Secretary | | |
| Gary Robert McNeilly Stewart | 5 March 2009 | |

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 ('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 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 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

DIRECTORS' REPORT (continued)

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 AUDITORS

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 auditors are 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 auditors are 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' INDEMNITIES

In terms of section 236 of the Companies Act 2006, Steven Bruce Mathews and Kathryn Anne Winup have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

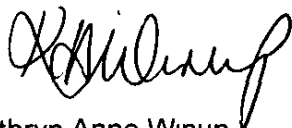
The Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc ("RBSG"), as outlined below.

RBSG is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is RBSG'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.

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors.

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



Kathryn Anne Winup
Director
Date 30 June 2010

DIRECTORS' REPORT (continued)**SHARE CAPITAL**

The company was incorporated with a share capital of £1 consisting of one ordinary share of £1

DIRECTORS AND SECRETARY

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

From 5 March 2009 to date the following changes have taken place

| | Appointed | Resigned |
|------------------------------|------------------|-----------------|
| Directors | | |
| Alan Sinclair Devine | 5 March 2009 | 13 April 2010 |
| Michael Ellwood | 5 March 2009 | 6 April 2010 |
| Melanie Jane Hannay | 13 April 2010 | |
| Steven Bruce Matthews | 13 April 2010 | |
| Kathryn Anne Winup | 5 March 2009 | |
| Secretary | | |
| Gary Robert McNeilly Stewart | 5 March 2009 | |

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 ('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 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 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RBS SME INVESTMENTS LIMITED

We have audited the financial statements of RBS SME Investments Limited ('the Company') for the period from 5 March 2009 to 31 December 2009 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 10. 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 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 auditors

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 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 2009 and of its loss for the period from 5 March 2009 to 31 December 2009,
- 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RBS SME INVESTMENTS LIMITED (continued)

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB)

In our opinion the financial statements comply with IFRSs as issued by the IASB

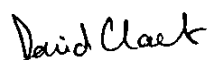
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period 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



David Claxton, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors, Edinburgh, Scotland
30 June 2010

STATEMENT OF COMPREHENSIVE INCOME for the period from 5 March 2009 to 31 December 2009

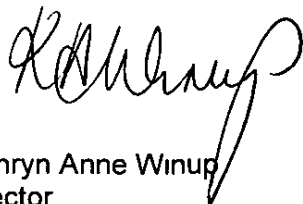
| | Notes | For the period from 5 March 2009 to 31 December 2009 £ |
|---|-------|---|
| Interest payable | | (8,444) |
| Operating expenses | 2 | <u>(5,000)</u> |
| Operating loss before tax | | (13,444) |
| Tax charge | 3 | 3,764 |
| Loss and comprehensive income for the period | | <u><u>(9,680)</u></u> |

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 2009

| | Notes | 2009 £ |
|-------------------------------------|-------|------------------|
| Assets | | |
| Amounts due from other Group entity | 5,9 | 1 |
| Equity shares | 4,5 | 2,744,564 |
| Current tax asset | 3,5 | 3,764 |
| Total assets | | <u>2,748,329</u> |
| Liabilities | | |
| Bank overdraft | 5,9 | 2,752,945 |
| Amounts due to other Group entity | 5,9 | 63 |
| Accruals | 5 | 5,000 |
| Total liabilities | | <u>2,758,008</u> |
| Shareholder's equity | | |
| Called up share capital | 7 | 1 |
| Retained deficit | | (9,680) |
| Total equity | | <u>(9,679)</u> |
| Total liabilities and equity | | <u>2,748,329</u> |

The financial statements of RBS SME Investments Limited, were approved by the Board of directors and authorised for issue on 30 June 2010 and signed on its behalf by



Kathryn Anne Winup
Director

STATEMENT OF CHANGES IN EQUITY for the period from 5 March 2009 to 31 December 2009

| | Notes | Share capital £ | Retained deficit £ | Total attributable to equity holders of the Company £ |
|------------------------------------|-------|-----------------------|--------------------------|--|
| Issue of share capital | 7 | 1 | - | 1 |
| Loss for the period | | - | (9,680) | (9,680) |
| Balance at 31 December 2009 | | <u>1</u> | <u>(9,680)</u> | <u>(9,679)</u> |

Q

CASH FLOW STATEMENT for the period from 5 March 2009 to 31 December 2009

For the period from
5 March 2009 to
31 December 2009
£

| | |
|--|---------------------------|
| Operating loss before taxation | (13,444) |
| Increase in amounts due from other Group entity | (1) |
| Increase in amounts due to other Group entity | 63 |
| Increase in accruals | 5,000 |
| Net cash from operating activities before and after tax | <u>(8,382)</u> |
| Investing activities | |
| Purchase of equity shares | <u>(2,744,564)</u> |
| Net cash used by investing activities | <u>(2,744,564)</u> |
| Financing activities | |
| Issue of ordinary share | <u>1</u> |
| Net cash from financing activities | <u>1</u> |
| Net decrease in cash and cash equivalents | (2,752,945) |
| Cash and cash equivalents as at 5 March 2009 | - |
| Cash and cash equivalents as at 31 December 2009 | <u><u>(2,752,945)</u></u> |

NOTES TO THE FINANCIAL STATEMENTS**1 Accounting policies****a) Accounting convention**

The financial statements, which should be read in conjunction with the directors' report are prepared on a going concern basis and in accordance with International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board 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. 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.

b) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing financial statements as disclosed in the directors' report.

c) Adoption of new and revised standards

The Company has adopted the revisions to IAS 1 "Presentation of financial statements" which introduced a single performance statement "Statement of Comprehensive Income" and extended the "Statement of Changes in Equity".

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

These are non-derivative financial assets with fixed or determinable repayments that are initially recognised at fair value plus directly related costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

The effective interest rate 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 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.

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****e) Financial assets (continued)****Available-for-sale**

Financial assets that are not classified as held-to-maturity, held-for-trading, designated at fair value through profit or loss, or 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. 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.

Impairment losses are recognised through the Statement of Comprehensive Income. Any reversals are credited to the Statement of Comprehensive Income.

g) Fair value of financial instruments

Financial instruments classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured 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 measured at fair value include

Equity shares, available-for-sale comprises equity shares in the Capital for Enterprise Fund of sterling unlisted companies or corporations.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

NOTES TO THE FINANCIAL STATEMENTS**1 Accounting policies (continued)****h) Financial liabilities**

All financial liabilities are measured at amortised cost using the effective interest rate method

i) 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.

j) Critical accounting estimates and judgements

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. There are no critical accounting estimates.

In the absence of an applicable accounting standard, 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 company's policy is to report investments at fair value determined using financial models incorporating assumptions, judgements and estimates, at 31 December 2009, there was no material change in value from the cost of the investments. There are no other particular judgements and assumptions involved in the Company's accounting policies that are considered by the Board to be significant to the portrayal of its financial condition.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

k) Accounting developments

International Financial Reporting Standards

The IASB reissued IAS 24, 'Related Party Disclosures', in November 2009 clarifying the existing standard and to provide certain exemptions for entities under government control. The revised standard is effective for accounting periods beginning on or after 1 January 2011 and is expected generally to reduce the volume of disclosure between the Company and other parties related to the UK Government.

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 instruments are measured at fair value. Changes in the value of instruments 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.

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

At the date of authorisation of these financial statements, there are no other new standards and interpretations in issue but not yet effective which the directors anticipate will, upon adoption in future periods, have a material effect on the financial statements of the Company.

2. Operating expenses

Operating loss is stated after charging:

For the period from
5 March 2009 to
31 December 2009
£

Auditors' remuneration – audit services

5,000

3. Taxation

For the period from
5 March 2009 to
31 December 2009
£

Current taxation

UK corporation tax credit for the period

3,764

There is no difference in the expected tax credit computed by applying the average UK corporation tax rate of 28%.

NOTES TO THE FINANCIAL STATEMENTS

4 Equity shares

2009
Unlisted
£

Available-for-sale 2,744,564

As at December 2009, no revaluation movements or impairments have been recognised and all investments remain at cost

The company invested in Capital for Enterprise Fund 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.

5 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.

| 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 | | | | | |
| Bank overdraft | - | - | 2,752,945 | - | 2,752,945 |
| Amounts due to other | | | | | |
| Group entity | - | - | 63 | - | 63 |
| Accruals | - | - | 5,000 | - | 5,000 |
| | <u>-</u> | <u>-</u> | <u>2,758,008</u> | <u>-</u> | <u>2,758,008</u> |
| Equity | | | | | (9,679) |
| Total liabilities and equity | | | | | <u>2,748,329</u> |

There is no material difference between the carrying value and the fair value of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS**6. Risk management****Capital risk management**

The Company considers its capital to consist of equity attributable to the equity holders of the Company, comprising issued share capital. The Company is a member of the Royal Bank of Scotland Group of companies (the 'Group') which has regulatory disciplines over the use of its capital. The Company operates controls and policies put in place by the Group to ensure that the Company can continue as a going concern and to ensure that the Group complies with these regulatory disciplines.

Risk management

The Company uses a comprehensive framework for managing risks established by the Royal Bank of Scotland Group of companies. The 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. The amounts due to Group entities do not have any significant interest rate risk as they are due primarily on demand. 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

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company.

All balances were with other Group entities and therefore the risk is considered minimal.

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities. The Company manages liquidity risk through applying the established framework in place within the Group.

Liquidity management within the Group 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).

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

6. 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

The Company operates solely within the UK and its functional currency is Sterling. Therefore the Company has no currency risk

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 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

7. Called up share capital

| | 2009 £ |
|-------------------------------|-----------|
| Authorised: | |
| 1 ordinary share of £1 each | <u>1</u> |
| Issued and fully paid: | |
| 1 ordinary share of £1 each | <u>1</u> |

The company issued 1 ordinary share of £1 on 5 March 2009

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

8 Commitments

The company is committed to investing a further £3,505,499 to 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

Commitments, which have been entered into with Capital for Enterprise Limited, are not included in assets

9. Related party transactions

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

NOTES TO THE FINANCIAL STATEMENTS

9. Related party transactions (continued)

Key management personnel

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.

Other related companies

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 2009, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

Transactions with other Group companies in the period 5 March 2009 to 31 December 2009 comprised:

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 4 respectively.

| | 2009 £ |
|---|------------------|
| Amounts due from | |
| Parent The Royal Bank of Scotland plc | 1 |
| Other Department for Business Innovation and Skills | 2,744,564 |
| | <u>2,744,565</u> |
| Amounts due to | |
| Parent The Royal Bank of Scotland plc | 2,752,945 |
| Parent The Royal Bank of Scotland plc | 63 |
| | <u>2,753,008</u> |

10. Post balance sheet events

On 12 January 2010, the Company received a bank loan of £2,700,000 from The Royal Bank of Scotland Group plc to assist with the funding of the Company.