Company Registered No: SC058013

ROYAL BANK LEASING LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 30 September 2012

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2012

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	S J Caterer J E Rogers P D J Sullivan R F Warren
SECRETARY:	RBS Secretarial Services Limited
REGISTERED OFFICE:	24/25 St Andrew Square Edinburgh EH2 1AF
AUDITOR:	Deloitte LLP 3 Rivergate Temple Quay Bristol BS1 6GD

Registered in Scotland

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 30 September 2012.

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 to subsidiary companies. The company also has an investment in property.

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 RBS 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 31 to the financial statements.

Financial performance

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

Operating profit grew by £16,246,000 (2011: fell by £7,535,000). Revenue fell by £45,000 (2011: fell by £1,114,000) and finance costs fell by £25,120,000 (2011: £20,362,000). The profit for the year was £179,150,000 (2011: £100,850,000), an increase of 78% over 2011.

A dividend of £80,000,000 was paid on 27 June 2012 (2011: £nil).

At the end of the year, the balance sheet showed total assets of £6,784,018,000 (2011: £7,372,451,000), including income-generating assets comprising plant, property and equipment £3,226,000 (2011: £6,115,000), finance leased assets £86,844,000 (2011: £150,472,000), loan receivables £6,564,040,000 (2011: £7,044,504,000) and cash £2,961,000 (2011: £12,315,000) together representing a decrease of 8%. Total equity was £138,513,000 (2011: £39,363,000).

Principal risks and uncertainties

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

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 25 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 25.

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 October 2011 to date the following changes have taken place:

	Appointed	Resigned
Secretary		
C J Down		31 October 2012
RBS Secretarial Services Limited	31 October 2012	

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 has expressed its willingness to continue in office as auditor.

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

R F Warren
Director
Date: 24 May 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BANK LEASING LIMITED

We have audited the financial statements of Royal Bank Leasing Limited ('the company') for the year ended 30 September 2012 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 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS's") 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 30 September 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS's 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 ROYAL BANK LEASING 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
Date
28th May 2013

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2012

Continuing operations	Notes	2012 £'000	2011 £'000
Revenue	3	**8,195**	8,240
Cost of sales		**(644)**	(714)
Operating income	4	**2,601**	1,615
Operating expenses	5	**(12,617)**	(1,345)
Profit/(loss) on disposal of subsidiaries		**20,025**	(6,482)
Operating profit		**17,560**	1,314
Finance income	6	**196,555**	214,792
Other income	7	**147,758**	91,084
Finance costs	8	**(191,880)**	(217,000)
Profit before tax		**169,993**	90,190
Tax credit	9	**9,157**	10,660
Profit and total comprehensive income for the year		**179,150**	100,850

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET
as at 30 September 2012

	Notes	2012 £'000	2011 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	3,226	6,115
Investments in subsidiaries	12	82,143	82,146
Investments in associates	13	3,098	3,201
Investment in property	14	18,150	18,150
Finance lease receivables	16	78,824	132,047
Loan receivables	17	5,793,233	6,140,802
Derivatives	20	8,838	5,104
		5,987,512	6,387,565
Current assets			
Finance lease receivables	16	8,020	18,425
Loan receivables	17	770,807	903,702
Trade and other receivables	18	851	190
Prepayments, accrued income and other assets	19	13,384	49,431
Derivatives	20	483	823
Cash		2,961	12,315
		796,506	984,886
Total assets		6,784,018	7,372,451

BALANCE SHEET (continued)
as at 30 September 2012

	Notes	2012 £'000	2011 £'000
Liabilities			
Current liabilities			
Borrowings	21	**472,480**	873,952
Trade and other payables	22	**1,785**	1,412
Derivatives	20	**4,136**	870
Accruals, deferred income and other liabilities	23	**11,631**	13,700
		490,032	889,934
Non-current liabilities			
Borrowings	21	**5,441,635**	5,776,519
Deferred tax liability	24	**6,982**	13,776
Derivatives	20	**706,856**	652,859
		6,155,473	6,443,154
Total liabilities		**6,645,505**	7,333,088
Equity			
Share capital	26	**19,000**	19,000
Retained earnings		**119,513**	20,363
Total equity		**138,513**	39,363
Total liabilities and equity		**6,784,018**	7,372,451

The accompanying notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 May 2013 and signed on its behalf by:

R F Warren
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2012

	Note	Share capital £'000	Retained earnings £'000	Total £'000
At 1 October 2010		19,000	(80,487)	(61,487)
Profit for the year		-	100,850	100,850
At 30 September 2011		19,000	20,363	39,363
Profit for the year		-	**179,150**	**179,150**
Dividends paid	**10**	-	**(80,000)**	**(80,000)**
At 30 September 2012		**19,000**	**119,513**	**138,513**

Total comprehensive income for the year of £179,150,000 (2011: £100,850,000) 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 30 September 2012

	Note	2012 £'000	2011 £'000
Operating activities			
Profit for the year before tax		**169,993**	90,190
Adjustments for:			
Depreciation		**1,764**	1,838
Foreign exchange (gains)/losses		**(1,106)**	466
(Gain)/loss on disposal of subsidiaries		**(20,025)**	6,482
Capital contribution		**(6,469)**	-
Loss on disposal of plant, property and equipment		**626**	-
Fair value of non-hedge derivatives		**14,602**	56,263
Fair value of hedge ineffectiveness		**(24,139)**	(15,790)
Investment revenue		**(138,221)**	(131,557)
Finance income		**(196,555)**	(214,792)
Finance costs		**191,880**	217,000
Operating cash flows before movements in working capital		**(7,650)**	10,100
Decrease in finance lease receivables		**70,328**	12,162
(Increase)/decrease in trade and other receivables		**(661)**	333
Decrease in prepayments, accrued income and other assets		**(642)**	(1,609)
Increase/(decrease) in trade and other payables		**373**	(2,380)
Decrease in accruals, deferred income and other liabilities		**(1,509)**	(2,397)
Net cash from operating activities before tax		**60,239**	16,209
Tax/Group relief received/(paid) – immediate parent company		**39,493**	(6,548)
Net cash flows from operating activities		**99,732**	9,661
Cash flows from investing activities			
Interest received from group undertakings – immediate parent company		**206,358**	220,350
Proceeds from disposals of subsidiary investments		**34,113**	1,833
Investment in subsidiary undertakings		**(7,279)**	-
Dividends received – subsidiary undertakings		**138,221**	131,557
Proceeds from sale of plant, property and equipment		**499**	-
Proceeds from new borrowings from immediate parent company		**528,634**	706,110
Net cash flows from investing activities		**900,546**	1,059,850

CASH FLOW STATEMENT (continued)
as at 30 September 2012

	Note	2012 £'000	2011 £'000
Cash flows from financing activities			
Repayment of borrowings – immediate parent company		**(736,356)**	(835,373)
Interest paid to group undertakings – immediate parent company		**(193,276)**	(222,980)
Dividends paid		**(80,000)**	-
Net cash flows used by financing activities		**(1,009,632)**	(1,058,353)
Net (decrease)/increase in cash and cash equivalents		**(9,354)**	11,158
Cash and cash equivalents at beginning of year		**12,315**	1,157
Cash and cash equivalents at end of year	**27**	**2,961**	12,315

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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

The accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and investment property.

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

The company is incorporated in the UK and registered in Scotland. 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 October 2011. They have had no material effect on the company's financial statements for the year ended 30 September 2012.

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

c) Foreign currencies
Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling 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 sterling at the foreign exchange rates ruling at the dates the values are determined.

d) Revenue recognition
Revenue from finance leases, operating leases and loans and receivables is recognised in accordance with the company's policies on leases and loans and receivables (see below). Revenue arises in the United Kingdom from continuing activities.

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. If there is a reduction in the estimated unguaranteed residual value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

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

1. Accounting policies (continued)

d) Revenue recognition (continued)

Fee income in respect of lending arrangements is considered integral to the yield and is included in the effective interest rate on these arrangements.

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.

Dividend income is recognised when the paying company is obliged to make the payment.

e) Taxation

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

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

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

f) Property, plant and equipment

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

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

The depreciable amount is the cost of an asset less its residual value. Assets held for use under operating leases are depreciated over the term of the lease.

<u>Estimated useful lives are as follows</u>:

Plant and machinery – 15 years
Computer equipment – up to 5 years
Assets held for use in operating leases – over the term of the lease using the straight line method.

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

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

h) Investments property
Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from charges in the fair value of investment property are included in profit or loss for the period in which they arise.

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

j) 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.

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

k) Derivatives
Derivative financial instruments are recognised initially, and subsequently measured, at fair value, with movements recognised in income. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

l) Hedge fair value
The company enters into fair value hedge relationships which hedge the changes in fair value of a recognised asset or liability or firm commitment. Principally, such hedges involve interest rate swaps hedging the interest rate risk in fixed rate loans. Hedge relationships are formally documented at inception, which includes the identification of the hedged item and hedged instrument, the risk that is being hedged, and the process for monitoring hedge effectiveness. The gain or loss on the hedging instrument or derivative is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and adjusts the carrying value of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting or if the hedge designation is revoked, and any cumulative adjustment is amortised to profit or loss over the remaining life of the hedged item.

m) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

m) Financial assets (continued)

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.

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

o) 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.

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

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

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

r) Cash and cash equivalents
In the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

s) Accounting developments

The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in IAS 39 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 principal and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value. Changes in the value of financial assets measured at fair value are generally taken to profit or loss.

In October 2010, IFRS 9 was updated to include requirements in respect of the classification and measurement of liabilities. These do not differ markedly from those in IAS 39 except for the treatment of changes in the fair value of financial liabilities that are designated as at fair value through profit or loss attributable to own credit; these must be presented in other comprehensive income.

In December 2010, the IASB issued amendments to IFRS 9 and to IFRS 7 'Financial Instruments: Disclosures' delaying the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 and introducing revised transitional arrangements including additional transition disclosures. If an entity implements IFRS 9 in 2012 the amendments permit it either to restate comparative periods or to provide the additional disclosures. The additional transition disclosures must be given if implementation takes place after 2012.

IFRS 9 makes major changes to the framework for the classification and measurement of financial instruments and will have a significant effect on the company's financial statements. The company is assessing the effect of IFRS 9 which will depend on the outcome of the other phases of the IASB's IAS 39 replacement project and on the outcome of the IASB's tentative decision at its December 2011 meeting to reconsider the following topics:

- additional application guidance to clarify how the instrument characteristics test was intended to be applied;
- bifurcation of financial assets, after considering any additional guidance for the instrument characteristics test; and
- expanded use of other comprehensive income or a third business model for some debt instruments.

'Disclosures - Transfers of Financial Assets (Amendments to IFRS 7)' was published by the IASB in October 2010. This replaces IFRS 7's existing derecognition disclosure requirements with disclosures about (a) transferred assets that are not derecognised in their entirety and (b) transferred assets that are derecognised in their entirety but where an entity has continuing involvement in the transferred asset. The amendments are effective for annual periods beginning on or after 1 July 2011.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

In June 2011, the IASB issued amendments to two standards:

Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification. The amendments are effective for annual periods beginning on or after 1 July 2012. Earlier application is permitted.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

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

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

In December 2011, the IASB issued 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' and 'Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)'. The amendment to IAS 32 adds application guidance on the meaning of 'a legally enforceable right to set off' and on simultaneous settlement. IFRS 7 is amended to require disclosures facilitating comparisons between those entities reporting under IFRS and those reporting under US GAAP. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

The IASB issued 'Annual Improvements to IFRSs 2009-2011 Cycle' in May 2012 implementing minor changes to IFRSs, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording. The revisions are effective for annual accounting periods beginning on or after 1 January 2013 and are not expected to have a material effect on the company.

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

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

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

2. Critical accounting policies and key sources of estimation uncertainty (continued)

Fair value of derivative instruments
The company holds both hedged and non-hedged derivative financial instruments. Where the company has entered into fair value hedged relationships, the hedge changes the fair value of a recognised asset or liability. Principally, such hedges involve interest rate swaps hedging the interest rate risk in fixed rate loans. 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.

3. Revenue

	2012 £'000	2011 £'000
Finance lease income:		
Rents receivable	**16,440**	19,104
Amortisation	**(9,361)**	(12,038)
Contingent rental expense	**(1,885)**	(1,937)
	5,194	5,129
Operating lease income	**3,001**	3,111
	8,195	8,240

4. Operating income

	2012 £'000	2011 £'000
Profit on disposal of leases	**-**	50
Fee income	**774**	954
Management fees	**1,180**	-
Other operating income	**647**	611
	2,601	1,615

5. Operating expenses

	2012 £'000	2011 £'000
Commission payable	**3**	147
Bad debt credit	**-**	(912)
Depreciation	**1,120**	1,124
Purchases	**774**	91
Loss on disposal of finance leases	**10,644**	-
Exchange (gains)/losses	**(560)**	520
Management fees	**-**	296
Loss on disposal of plant, property and equipment	**626**	-
Other charges	**10**	79
	12,617	1,345

5. Operating expenses (continued)

During the year the company transferred three leases to a subsidiary company resulting in a pre-tax loss of £10,680,000 which is included in the above loss on disposal of finance leases. Reflecting the reduction in deferred tax, the transfer made a £2,119,000 post tax profit.

Staff costs, number of employees and directors' emoluments
All staff and directors were employed by The Royal Bank of Scotland plc ("RBS"), the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The company has no employees and pays a management charge for services provided by other group companies. The directors of the company do not receive remuneration for specific services provided to the company.

Management recharge
Management charge costs of £7,338,000 (2011: £8,850,000) 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 The Royal Bank of Scotland plc. Management charge income of £8,518,000 (2011: £8,559,000) relates to the company's recharge of group resources to subsidiary and fellow subsidiary companies. The total overall income of £1,180,000 (2011: charge of £291,000) is included within operating income (note 4) (2011: operating expenses - note 5).

Auditor's remuneration	**2012 £'000**	**2011 £'000**
Auditor's remuneration – audit services (included within the management fee shown in note 4 and 5)	**20**	5

6. Finance income

	2012 £'000	**2011 £'000**
On loan receivables:		
From group undertakings – subsidiary companies	**188,779**	207,054
From jointly owned entities	**7,776**	7,738
	196,555	214,792

7. Other income

	2012 £'000	**2011 £'000**
Dividend income from subsidiaries	**138,221**	131,557
Loss from movement in fair value of non-hedge derivatives	**(14,602)**	(56,263)
Profit from movement in fair value hedge ineffectiveness	**24,139**	15,790
	147,758	91,084

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Other income (continued)

Breakdown in movement in fair value hedge ineffectiveness

	2012 £'000	2011 £'000
Movement in hedge items	**64,240**	12,635
Movement in hedge derivatives	**(40,101)**	3,155
	24,139	15,790

8. Finance costs

	2012 £'000	2011 £'000
Interest on loans from group undertakings – immediate parent company	**191,880**	217,000

9. Tax

	2012 £'000	2011 £'000
Current taxation:		
UK corporation tax credit for the year	**(2,408)**	(7,579)
Under provision in respect of prior periods	**45**	167
	(2,363)	(7,412)
Deferred taxation:		
Credit for the year	**(5,909)**	(2,100)
Impact of tax rate changes	**(1,130)**	(1,284)
Under/(over) provision in respect of prior periods	**245**	136
	(6,794)	(3,248)
Tax credit for the year	**(9,157)**	(10,660)

Where appropriate current tax consists of sums payable or receivable for group relief.

The actual tax credit differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 25% (2011: blended tax rate of 27%) as follows:

	2012 £'000	2011 £'000
Expected tax charge	**42,498**	24,351
Unrecognised timing differences	**(269)**	(331)
Other non-deductible items	**3**	1,796
Non-taxable items	**(39,884)**	(35,928)
Non-taxable adjustments on transfer of trade	**(11,188)**	-
Reduction in deferred tax following change in rate of UK corporation tax	**(607)**	(1,102)
Other	**-**	251
Adjustments in respect of prior periods	**290**	303
Actual tax (credit)/charge for the year	**(9,157)**	(10,660)

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Tax (continued)

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest enacted rate standing at 23% with effect from 1 April 2013. Further reductions of the rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015 were announced on 5 December 2012 and 20 March 2013 respectively, but not substantively enacted at the balance sheet date. Accordingly, the closing deferred tax assets and liabilities have been calculated at 23%.

10. Ordinary dividends

	2012 £'000	2011 £'000
Interim dividend paid (£4.21 per share)	**80,000**	-

11. Property, plant and equipment

	Assets held for use in operating leases £'000	Plant and Machinery £'000	Computer and other equipment £'000	Total £'000
Cost				
1 October 2011	**7,184**	**8,402**	**871**	**16,457**
Disposals	**-**	**(8,402)**	**(740)**	**(9,142)**
30 September 2012	**7,184**	**-**	**131**	**7,315**
Accumulated depreciation and impairment				
1 October 2011	**3,320**	**6,212**	**810**	**10,342**
Depreciation charge for the year	**644**	**1,120**	**-**	**1,764**
Disposals	**-**	**(7,332)**	**(685)**	**(8,017)**
30 September 2012	**3,964**	**-**	**125**	**4,089**
Cost				
1 October 2010	7,358	8,402	871	16,631
Disposals	(174)	-	-	(174)
30 September 2011	7,184	8,402	871	16,457
Accumulated depreciation and impairment				
1 October 2010	2,780	5,089	809	8,678
Depreciation charge for the year	714	1,123	1	1,838
Disposals	(174)	-	-	(174)
30 September 2011	3,320	6,212	810	10,342
Net book value				
30 September 2012	**3,220**	**-**	**6**	**3,226**
30 September 2011	3,864	2,190	61	6,115

11. Property, plant and equipment (continued)

Depreciation

	2012 £'000	2011 £'000
Included within cost of sales	**644**	714
Included in operating expenses	**1,120**	1,124
	1,764	1,838

Security
No property, plant and equipment has been pledged as security for liabilities of the company (2011: none).

12. Investments in subsidiaries

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

	2012 £'000	2011 £'000
At 1 October	**82,146**	90,461
Additions	**13,752**	-
Disposals	**(14,088)**	(8,315)
Exchange	**333**	-
At 30 September	**82,143**	82,146

During the year, the company acquired the following subsidiaries:

Name of subsidiary	Date of purchase	Consideration £'000
RBS Aerospace Ireland Leasing 2 Limited	22 December 2011	4

The company also made a capital contribution of £6,469,000 and subscribed to additional shares totalling £7,278,000 during the year in RBS Aerospace (UK) Limited.

During the year, the company disposed of the following subsidiaries:

Name of subsidiary	Date of sale	Consideration £'000	Profit/(loss) £'000
Lombard Corporate Finance (June 1) Limited	15 December 2011	7	(1,952)
TH Leasing (March 1) Limited	26 February 2012	8	(265)
RBS Aerospace (UK) Limited	1 June 2012	36,255	22,052
TS4i (Power Resources 3) Limited	30 August 2012	500	190

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Investments in subsidiaries (continued)

The principal subsidiary undertakings of the company are shown below. All subsidiaries are incorporated in England and Wales except for Royal Scot Leasing Limited and R. B. Leasing Company Limited which are incorporated in Scotland and RBS Aerospace Ireland Leasing 2 Limited which is incorporated in the Republic of Ireland. All subsidiaries are owned 100% with 100% of the voting power held by the company.

Name of subsidiary	Principle activity	Accounting reference date
Desertlands Entertainment Limited	Leasing	28 February
Lombard Corporate Finance (7) Limited	Leasing	31 March
Lombard Corporate Finance (March 1) Limited	Leasing	31 March
R.B. Quadrangle Leasing Limited	Leasing	31 March
RBSSAF (19) Limited	Leasing	31 March
RBSSAF (2) Limited	Leasing	31 March
Royal Bank of Scotland (Industrial Leasing) Limited	Leasing	31 March
Sandford Leasing Limited	Leasing	31 March
W. & G. Industrial Leasing Limited	Leasing	31 March
R.B. Leasing (April) Limited	Leasing	30 April
Helena Productions Limited	Film production & development	30 June
Lombard Corporate Finance (10) Limited	Leasing	30 June
Lombard Corporate Finance (11) Limited	Leasing	30 June
Lombard Corporate Finance (June 2) Limited	Leasing	30 June
P of A Productions Limited	Leasing	30 June
Patalex III Productions Limited	Film production & development	30 June
Pittville Leasing Limited	Leasing	30 June
R.B. Capital Leasing Limited	Leasing	30 June
RBSSAF (4) Limited	Leasing	30 June
Winchcombe Finance Limited	Leasing	30 June
Lombard Corporate Finance (13) Limited	Leasing	30 September
Lombard Corporate Finance (14) Limited	Leasing	30 September
Lombard Corporate Finance (15) Limited	Leasing	30 September
Lombard Corporate Finance (September 1) Limited	Leasing	30 September
Nanny McPhee Productions Limited	Film production & development	30 September
Patalex II Productions Limited	Film production & development	30 September
Price Productions Limited	Film production & development	30 September
R.B. Asset Value Limited	Provision of residual value guarantees	30 September
R.B. Leasing (Eden) Limited	Leasing	30 September
R.B. Leasing (September) Limited	Leasing and Hire Purchase	30 September
R.B. Leasing (Shaftesbury) Limited	Asset Valuation	30 September
R.B. Leasing Company Limited	Leasing	30 September

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Investments in subsidiaries (continued)

RBSSAF (3) Limited	Leasing	31 December
RBSSAF (6) Limited	Leasing	30 September
RBSSAF (7) Limited	Leasing	30 September
RBSSAF (8) Limited	Leasing	30 September
RBSSAF (11) Limited	Leasing	31 December
RBSSAF (12) Limited	Leasing	31 December
RBSSAF (13) Limited	Leasing	31 December
RBSSAF (16) Limited	Leasing	31 December
Northern Isles Ferries Limited	Leasing	31 December
RBSSAF (21) Limited	Leasing	31 December
RBSSAF (22) Limited	Leasing	31 December
RBSSAF (23) Limited	Leasing	31 December
RBSSAF (25) Limited	Leasing	31 December
RBSSAF (26) Limited	Leasing	31 December
RBSSAF (27) Limited	Leasing	31 December
Royal Bank Operating Leasing Limited	Leasing	30 September
Royal Scot Leasing Limited	Film production & development	30 September
Williams & Glyn's Leasing Company Limited	Leasing and Hire Purchase	30 September
Distant Planet Productions Limited	Film production & development	31 October
Patalex Productions Limited	Film production & development	31 October
Patalex V Productions Limited	Film production & development	31 October
Patalex IV Productions Limited	Film production & development	30 November
R.B. Equipment Leasing Limited	Leasing	30 November
RBSSAF (10) Limited	Leasing	30 November
Leckhampton Finance Limited	Leasing	31 December
Lombard Corporate Finance (6) Limited	Leasing	31 December
Lombard Corporate Finance (December 1) Limited	Leasing	31 December
Lombard Corporate Finance (December 2) Limited	Leasing	31 December
Lombard Corporate Finance (December 3) Limited	Leasing	31 December
R.B. Leasing (Bluewater) Limited	Leasing	31 December
R.B. Leasing (December) Limited	Leasing	31 December
RBS Aerospace Ireland Leasing 2 Limited	Leasing	31 December
RBS Asset Finance Europe Limited	Leasing	31 December
W. & G. Lease Finance Limited	Leasing	31 December

13. Investments in associates

	2012 £'000	2011 £'000
At 1 October	**3,201**	3,184
Exchange (loss)/gain	**(103)**	17
At 30 September	**3,098**	3,201

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Investments in associates (continued)

The associates of the company, which have an accounting reference date of 31 December, are incorporated in Great Britain and are registered in England and Wales, are:

Name of associate	Nature of business	Interest in ordinary share capital 2012 %	Interest in ordinary share capital 2011 %
Tay Valley Lighting (Leeds) Limited	Provision and maintenance of public street lighting	**50**	50
Tay Valley Lighting (Newcastle and North Tyneside) Limited	Provision and maintenance of public street lighting	**50**	50
Tay Valley Lighting (Stoke on Trent) Limited	Provision and maintenance of public street lighting	**50**	50
Gate Leasing Limited	Leasing of assets	**50**	50

14. Investment property

	2012 £'000	2011 £'000
At 30 September 2011 and 2012	**18,150**	18,150

The fair value of the company's investment property has been arrived at by reference to market evidence of transaction prices for similar properties. The independent valuation was done in 2012 and has been completed by an independent valuer with the appropriate qualifications (MRICS).

The company has pledged its investment property to secure general banking facilities granted to the company. The property rental income earned by the company from its investment property, which is leased out under operating leases, amounted to £2,273,000 (2011: £2,322,000). Direct operating expenses arising on investment property in the period amounted to £nil (2011: £nil).

15. Operating lease arrangements

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

	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
Land and building	**2,262**	**9,049**	**754**	**12,065**
Equipment	**713**	**1,605**	**-**	**2,318**
2012	**2,975**	**10,654**	**754**	**14,383**
Land and building	2,297	9,188	3,063	14,548
Equipment	547	2,553	-	3,100
2011	2,844	11,741	3,063	17,648

16. Finance lease receivables

	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
2012				
Future minimum lease payments	**8,251**	**30,314**	**58,596**	**97,161**
Unearned finance income	**(231)**	**(3,259)**	**(6,827)**	**(10,317)**
Present value of minimum lease payments receivable	**8,020**	**27,055**	**51,769**	**86,844**
2011				
Future minimum lease payments	18,799	75,960	75,464	170,223
Unearned finance income	(374)	(7,916)	(11,461)	(19,751)
Present value of minimum lease payments receivable	18,425	68,044	64,003	150,472

	2012 £'000	2011 £'000
Current	**8,020**	18,425
Non-current	**78,824**	132,047
	86,844	150,472

The company has entered into various finance lease arrangements. The average term of the finance leases entered into is 16 years (2011: 13 years).

Unguaranteed residual values are estimated at £nil (2011: £nil).

The average effective interest rate in relation to finance lease agreements approximates 4.3% (2011: 3.8%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Loan receivables

	2012 £'000	2011 £'000
Current		
Amounts owed by group undertakings – subsidiary companies	**763,376**	895,926
Deposits owed by jointly controlled entities	**7,431**	7,776
	770,807	903,702
Non-current		
Amounts owed by group undertakings – subsidiary companies	**5,671,079**	6,013,661
Deposits owed by jointly controlled entities	**122,154**	127,141
	5,793,233	6,140,802
Total	**6,564,040**	7,044,504

Included within loan receivables is £129,585,000 (2011: £134,917,000) owed from associated companies.

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

18. Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	**169**	44
Other receivables	**682**	146
	851	190

19. Prepayments, accrued income and other assets

	2012 £'000	2011 £'000
Prepayments – immediate parent company	**2,835**	2,628
Group relief receivable from group undertaking – immediate parent company	**10,549**	46,803
	13,384	49,431

20. Derivatives at fair value

The company enters into various financial instruments (derivatives) as principal to manage foreign exchange and interest rate risk. Derivatives include swaps and forwards.

A swap is an arrangement to exchange cash flows in the future in accordance with a pre-arranged formula. In currency swap transactions, interest payment obligations are exchanged on assets and liabilities denominated in different currencies; the exchange of principal may be notional or actual. A forward contract is a contract to buy (or sell) a specified amount of a physical or financial commodity, at an agreed price, on an agreed future date. Forward foreign exchange contracts are contracts for the delayed delivery of currency on a specified future date.

20. Derivatives at fair value (continued)

At the year end, the notional principal amounts of the company's derivatives were as follows:

Notional principal amounts	2012 £'000	2011 £'000
Exchange rate contracts	**(7,762)**	(22,573)
Interest rate swaps	**(4,139,203)**	(4,463,646)
	(4,146,965)	(4,486,219)

At the year-end, the derivatives carried at fair value by hierarchy were as follows:

Fair value	2012 Asset £'000	2012 Liability £'000	2011 Asset £'000	2011 Liability £'000
Exchange rate contracts	**483**	**(206)**	823	(310)
Interest rate swaps	**7,511**	**(204,937)**	3,081	(161,552)
Interest rate swaps in fair value hedge	**1,327**	**(505,849)**	2,023	(491,867)
	9,321	**(710,992)**	5,927	(653,729)

Maturity analysis	2012 Asset £'000	2012 Liability £'000	2011 Asset £'000	2011 Liability £'000
Current				
Exchange rate contracts	**483**	**(206)**	823	(310)
Interest rate swaps	**-**	**(260)**	-	(560)
Interest rate swaps in fair value hedge	**-**	**(3,670)**	-	-
	483	**(4,136)**	823	(870)
Non-current				
Exchange rate contracts	**-**	**-**	-	-
Interest rate swaps	**7,511**	**(204,677)**	3,081	(160,992)
Interest rate swaps in fair value hedge	**1,327**	**(502,179)**	2,023	(491,867)
	8,838	**(706,856)**	5,104	(652,859)
	9,321	**(710,992)**	5,927	(653,729)

Derivatives are valued by reference to observable market data, other than quoted market prices

21. Borrowings

	2012 £'000	2011 £'000
Loans from group undertakings – immediate parent company	**5,914,115**	6,650,471
Current	**472,480**	873,952
Non-current	**5,441,635**	5,776,519
	5,914,115	6,650,471

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. Trade and other payables

	2012 £'000	2011 £'000
Other payables	**1,785**	1,412

23. Accruals, deferred income and other liabilities

	2012 £'000	2011 £'000
Accruals – immediate parent company	**5,596**	6,369
Deferred income	**4,361**	5,657
Obligations under finance lease	**69**	69
Other liabilities	**1,605**	1,605
	11,631	13,700

24. Deferred tax

The following are the major tax (assets)/liabilities recognised by the company, and the movements thereon.

	Capital allowances £'000	Derivatives £'000	Other £'000	Total £'000
At 1 October 2010	31,653	(14,814)	185	17,024
Charge/(credit) to income	(4,897)	1,660	(11)	(3,248)
At 30 September 2011	26,756	(13,154)	174	13,776
Charge/(credit) to income	**(16,944)**	**10,166**	**(16)**	**(6,794)**
At 30 September 2012	**9,812**	**(2,988)**	**158**	**6,982**

25. Financial instruments and risk management

(i) Fair value

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

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

The fair value of loans and receivables is estimated by discounting expected future cash flows using current interest rates and making adjustments for credit.

All financial assets are classed as finance lease receivables or loans and receivables. All financial liabilities are classed as amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Financial instruments and risk management (continued)

(i) Fair value (continued)

	2012 Carrying value £'000	2012 Fair value £'000	2011 Carrying value £'000	2011 Fair value £'000
Financial assets				
Finance lease receivables	**86,844**	**115,698**	150,472	180,813
Loan receivables	**6,564,040**	**6,724,588**	7,044,504	7,169,278
Financial liabilities				
Borrowings	**5,914,115**	**5,947,717**	6,650,471	6,680,812

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

(ii) Financial risk management

The principal risks associated with the company's businesses are as follows:

Market risk

Market risk is the potential for loss as a result of adverse changes in risk factors including interest rates, foreign currency and equity prices together with related parameters such as market volatilities.

Interest rate risk

Structural interest rate risk arises where assets and liabilities have different re-pricing maturities.

Finance lease receivables and other instalment credit 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 re-pricing 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 following tables indicate financial assets and liabilities that are exposed to interest rate. This presentation reflects the information that management use to manage the underlying risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Interest rate risk (continued)

2012	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Finance leases	44,482	42,362	-	86,844
Loan receivables	3,763,658	2,800,382	-	6,564,040
Trade and other receivables	-	-	791	791
Prepayments, accrued income and other assets	-	-	2,835	2,835
Derivatives	-	-	9,321	9,321
Cash	-	2,961	-	2,961
	3,808,140	2,845,705	12,947	6,666,792
Financial liabilities				
Borrowings	3,733,418	2,180,697	-	5,914,115
Trade and other payables	-	-	1,230	1,230
Derivatives	-	-	710,992	710,992
Accruals and other liabilities	-	-	5,260	5,260
	3,733,418	2,180,697	717,482	6,631,597
Net financial assets/(liabilities)	74,722	665,008	(704,535)	35,195

2011	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Finance leases	108,472	42,000	-	150,472
Loan receivables	3,936,162	3,108,342	-	7,044,504
Trade and other receivables	-	-	156	156
Prepayments, accrued income and other assets	-	-	2,628	2,628
Derivatives	-	-	5,927	5,927
Cash	-	12,315	-	12,315
	4,044,634	3,162,657	8,711	7,216,002
Financial liabilities				
Borrowings	4,094,485	2,555,986	-	6,650,471
Trade and other payables	-	-	1,202	1,202
Derivatives	-	-	653,729	653,729
Accruals and other liabilities	-	-	5,822	5,822
	4,094,485	2,555,986	660,753	7,311,224
Net financial assets/(liabilities)	(49,851)	606,671	(652,042)	(95,222)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Interest rate risk (continued)

The following table shows the effect if interest rates had been 0.5% higher and all other variables were held constant:

	2012 £'000	2011 £'000
Profit before tax	**1,562**	843

Currency risk

The company does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in overseas subsidiary operations and their currency funding. Exposures arising from changes in net foreign currency investments are subject to regular review. It is the company's policy to match fund the structural foreign currency exposure arising from net asset value with borrowings in the same currency.

The company undertakes certain transactions denominated in foreign currencies. The company's policy is normally to match foreign currency receivables with borrowings in the same currency.

The company enters into various derivatives to manage foreign exchange risk. Details of these are described in note 20. The company is mainly exposed to Euro and US dollar currencies.

The sensitivity analysis below has been determined based on the foreign currency exposure 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.

The following table shows the effect if the rate of sterling against the Euro and US dollar had been 10% higher and all other variables were held constant.

	Euro Currency impact £'000	US dollar Currency impact £'000
2012		
Reduction in profit before tax	**354**	**381**
2011		
Reduction in profit before tax	981	716

The impact on profit before tax is mainly due to the company's gap between its foreign currency lending and its foreign currency borrowings. There would be no other material impact on equity

25. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Credit risk

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

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

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

Maximum credit exposure and neither past due nor impaired:

Sector	No. of counterparties	2012 £'000	2011 £'000
Natural resources	nil (2011: 1)	-	730
Transport	6 (2011: 8)	**47,730**	114,862
Film	2 (2011: 2)	**5,966**	8,432
Finance lease receivables		**53,696**	124,024
Amounts due from group undertakings		**6,470,565**	6,948,350
Amounts due from jointly controlled entities		**129,584**	134,917
Other		**12,894**	8,667
Sub total		**6,666,739**	7,215,958
Amounts past due:			
0-1 month		**1**	-
1-2 months		**8**	-
> 2 months		**44**	44
		53	44
Maximum credit exposure		**6,666,792**	7,216,002

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Credit risk (continued)

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

In respect of the film leases, third party banks have issued to the company letters of credit for a credit exposure of £5,833,097 (2011: £8,183,000).

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

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

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

2012	**0 – 3 months £'000**	**4 – 12 months £'000**	**1 – 3 years £'000**	**4 – 5 years £'000**	**6 - 10 years £'000**	**11 - 20 years £'000**
Borrowings	**162,331**	**356,362**	**947,109**	**801,501**	**2,590,149**	**1,924,970**
Gross derivatives	**19,476**	**108,955**	**265,344**	**235,534**	**323,364**	**110,788**
Trade and other payables	**1,230**	**-**	**-**	**-**	**-**	**-**
Accruals, deferred income and other liabilities	**5,260**	**-**	**-**	**-**	**-**	**-**
	188,297	**465,317**	**1,212,453**	**1,037,035**	**2,913,513**	**2,035,758**

2011	**0 – 3 months £'000**	**4 – 12 months £'000**	**1 – 3 years £'000**	**4 – 5 years £'000**	**6 - 10 years £'000**	**11 - 20 years £'000**
Borrowings	198,174	768,844	1,305,485	1,013,249	2,663,088	2,722,344
Gross derivatives	43,806	122,685	287,012	249,180	432,192	158,953
Trade and other payables	1,202	-	-	-	-	-
Accruals, deferred income and other liabilities	5,822	-	-	-	-	-
	249,004	891,529	1,592,497	1,262,429	3,095,280	2,881,297

25. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Liquidity risk (continued)

The company's intra-group liabilities may in certain circumstances become repayable on demand pursuant to the terms of the capital support deed (see note 29 - commitments and contingent liabilities).

Operational risk
Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The company manages this risk, in line with The Royal Bank of Scotland Group plc 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.

26. Share capital

		2012 £'000	2011 £'000
Authorised:			
22,000,000	Ordinary shares of £1	**22,000**	22,000
Allotted, called up and fully paid:			
Equity shares			
19,000,000	Ordinary shares of £1	**19,000**	19,000

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

27. Cash and cash equivalents per cash flow statement

	2012 £'000	2011 £'000
Cash held with group undertaking – immediate parent company	**2,961**	12,315
Cash and cash equivalents per cash flow statement	**2,961**	12,315

28. 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)

29. Commitments and contingent liabilities

The company, together with other members of The Royal Bank of Scotland Group plc, is party to a capital support deed (CSD). Under the terms of the CSD, the company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the company's available resources) together with any amounts distributed to it by its subsidiaries pursuant to the CSD. The CSD also provides that, in certain circumstances, funding received by the company from other parties to the CSD becomes immediately repayable, such repayment being limited to the company's available resources.

30. Related parties

UK Government

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of the company.

The company enters into transactions with these bodies on an arms' length basis; they include the payment of taxes including UK corporation tax and value added tax.

Group undertakings

The company's immediate parent company is The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. As at 30 September 2012, The Royal Bank of Scotland plc heads the smallest group in which the company is consolidated. Copies of the consolidated accounts of this company may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh EH12 1HQ.

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. As at 30 September 2012, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated. Copies of the consolidated accounts of this company may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh EH12 1HQ.

Amounts due to or from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

Key management

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 (continued)

30. Related parties (continued)

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.

31. Post balance sheet events

After the year end, the company disposed of the following subsidiaries:

Name of subsidiary	Date of sale	Consideration £'000	Loss £'000
RBSSAF (21) Limited	30 November 2012	-	3,446
RBSSAF (27) Limited	28 February 2013	-	1,332