

Company Registered No: 01297238

NATWEST LEASE MANAGEMENT LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2010

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NATWEST LEASE MANAGEMENT LIMITED

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A R Aitken
S B Eighteen
J M Goddard
A Pinfield
R Sivaraman
C Talbot

SECRETARY

R E Fletcher

REGISTERED OFFICE

135 Bishopsgate
London
EC2M 3UR

AUDITOR

Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

Registered in England and Wales.

DIRECTORS' REPORT

The directors of Natwest Lease Management Limited ("the Company") present their report and the audited financial statements for the year ended 31 December 2010. This director's report has been prepared in accordance with the special provisions applicable to companies entitled to the small companies' exemption under the Companies Act 2006.

ACTIVITIES AND BUSINESS REVIEW**Principal activity**

The principal activity of the Company continues to be investment. The only remaining revenue source is that of a fee debenture which entitles the Company to a profit share on a commercial mortgage property. The directors do not anticipate any material change in the type or level of activities of the Company.

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

Business review

The directors are satisfied with the Company's performance in the year. The Company will be guided by its immediate parent company in seeking further opportunities for growth.

Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 6. The profit before tax for the year was £1,268,337 (2009 £1,894). The retained profit for the year was £913,203 (2009 £1,364).

At the end of the year total assets were £1,297,679 (2009 £29,872).

Dividends

The directors do not recommend the payment of a dividend (2009 £950,000).

Principal risks and uncertainties

The Company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 6 and 7 to these financial statements.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and financial position are outlined above. The financial position of the Company, its cash flows and liquidity position are set out in the financial statements.

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, are listed on page 1.

DIRECTORS' REPORT (continued)**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, and
- make an assessment of the Company's ability to continue as a going concern

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

- 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

POST BALANCE SHEET EVENTS

On 24 June 2011, the Company, together with other members of the RBSG group, became party to a capital support deed (CSD)

AUDITOR

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

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



A R Aitken
Director
Date 27 June 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATWEST LEASE MANAGEMENT LIMITED

We have audited the financial statements of Natwest Lease Management Limited ('the Company') for the year ended 31 December 2010 which comprises the Statement of Comprehensive Income, the Balance sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS 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 NATWEST LEASE
MANAGEMENT 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, or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report

Michael Lloyd

Michael Lloyd (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, England
Date *30 June 2011*

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

		2010	2009
	Note	£	£
Continuing operations			
Fees and commissions receivable		1,268,360	-
Total operating income		1,268,360	-
Operating expenses	2	(23)	(23)
Operating profit/(loss) before tax		1,268,337	(23)
Non-operating income	3	-	1,917
Profit before tax		1,268,337	1,894
Tax charge	4	(355,134)	(530)
Profit and total comprehensive income for the year		913,203	1,364

The accompanying notes on pages 10 to 15 form an integral part of these financial statements

BALANCE SHEET
 As at 31 December 2010

	Note	2010 £	2009 £
Current assets			
Cash and cash equivalents	5	1,297,679	29,872
Total assets		<u>1,297,679</u>	<u>29,872</u>
Current liabilities			
Current tax liability	4	355,134	530
Total liabilities		<u>355,134</u>	<u>530</u>
Equity			
Share capital	8	2	2
Retained earnings		942,543	29,340
Total equity		<u>942,545</u>	<u>29,342</u>
Total liabilities and equity		<u>1,297,679</u>	<u>29,872</u>

The accompanying notes on pages 10 to 15 form an integral part of these financial statements. The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2011.

Signed on its behalf by



A R Aitken
Director

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

	Share capital £	Retained earnings £	Total £
At 1 January 2009	2	977,976	977,978
Profit for the year	-	1,364	1,364
Dividends paid	-	(950,000)	(950,000)
At 31 December 2009	2	29,340	29,342
Profit for the year	-	913,203	913,203
At 31 December 2010	2	942,543	942,545

The accompanying notes on pages 10 to 15 form an integral part of these financial statements

CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 £	2009 £
Operating activities			
Operating profit/(loss) for the year before tax		1,268,337	(23)
Net cash flows from/(used in) operating activities before tax		1,268,337	(23)
Tax paid		(530)	(22,010)
Net cash flows from/(used in) operating activities		1,267,807	(22,033)
Cash flows from investing activities			
Interest received on deposits with group undertaking		-	1,917
Net cash flows from investing activities		-	1,917
Cash flows from financing activities			
Dividends paid		-	(950,000)
Net cash flows used in financing activities		-	(950,000)
Net increase/(decrease) in cash and cash equivalents		1,267,807	(970,116)
Cash and cash equivalents at 1 January		29,872	999,988
Cash and cash equivalents at 31 December	5	1,297,679	29,872

The accompanying notes on pages 10 to 15 form an integral part of these financial statements

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

The financial statements are prepared on a going concern basis (see page 2 of Director's Report) and in accordance with IFRS issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS). The Company's financial statements are presented in accordance with the Companies Act 2006.

The Company is incorporated in the UK and registered in England and Wales. The financial statements are prepared on the historical cost basis.

Adoption of new and revised standards

There are a number of changes to IFRS that were effective from 1 January 2010. They have had no material effect on the Company's financial statements for the year ended 31 December 2010.

b) Foreign currencies

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

c) Revenue recognition

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. Fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related revenue is recognised.

d) Taxation

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

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

e) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

f) Accounting developments

The IASB issued '*Improvements to IFRS*' in May 2010 implementing minor changes to IFRS, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording. The revisions are effective for annual periods beginning on or after 1 July 2010 and are not expected to have a material effect on the Company.

The IASB issued IFRS 9 'Financial Instruments' in October 2010 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments: Recognition and Measurement' in respect of financial assets and liabilities. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost while keeping categories for liabilities broadly the same. Only financial assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value with changes in value generally taken to profit or loss. The IASB will add impairment and hedging requirements to the standard before it becomes effective for annual periods beginning on or after 1 January 2013, early application is permitted.

This standard makes major changes to the framework for the classification and measurement of financial assets and will have no effect on the Company's Financial Statements. The Company is assessing the effect which also depends on the outcome of the other phases of IASB's IAS 39 replacement project.

The IASB issued 'Disclosures - Transfers of Financial Assets' (Amendments to IFRS 7) in October 2010 to extend the standard's disclosure requirements about derecognition to align with US GAAP. The revisions are effective for annual periods beginning on or after 1 July 2011 and will not affect the financial position or reported performance of the Company.

The International Financial Reporting Interpretations Committee issued interpretation IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' in December 2009. The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments. The interpretation, effective for the Company for annual periods beginning on or after 1 January 2011, is not expected to have a material effect on the Company.

2 Operating expenses

	2010 £	2009 £
Bank charges	(23)	(23)

None of the directors received any emoluments from the Company for their services to the Company in the year ended 31 December 2010 (2009: £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company in the year ended 31 December 2010 (2009: £nil).

The Company did not have any employees in the year ended 31 December 2010 (2009: nil).

The auditor's remuneration of £5,000 (2009: £5,000) for statutory audit work for the Company was borne by The Royal Bank of Scotland plc.

3 Non-operating income

	2010 £	2009 £
Interest received on deposit with an intermediate parent company	-	1,917

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Taxation

	2010 £	2009 £
Current taxation		
UK corporation tax charge for the year	355,134	530
Under provision in respect of prior periods	-	-
Tax charge for the year	<u>355,134</u>	<u>530</u>

The Company is resident in the United Kingdom for tax purposes. The Company's corporation tax liability is determined in sterling using the standard corporation tax rate in the United Kingdom of 28% for the year 31 December 2010 (2009: 28%).

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

	2010 £	2009 £
Profit before tax:	1,268,337	1,894
Expected tax charge	355,134	530
Adjustments in respect of prior periods	-	-
Actual tax charge for the year	<u>355,134</u>	<u>530</u>

5 Cash and cash equivalents

	2010 £	2009 £
Cash at bank – group	1,297,679	29,872
	<u>1,297,679</u>	<u>29,872</u>

6. Financial instruments

The following tables analyse the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 "Financial Instruments, Recognition and Measurement". Assets and liabilities outside the scope of IAS 39 are shown separately.

2010	Loans and receivables £	Non financial assets/ liabilities £	Total £
Assets			
Cash and cash equivalents	1,297,679	-	1,297,679
	1,297,679	-	<u>1,297,679</u>
Liabilities			
Current tax liability	-	355,134	355,134
	-	355,134	<u>355,134</u>
Equity			<u>942,545</u>
			<u>1,297,679</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Financial instruments (continued)

2009	Loans and receivables £	Non financial assets/ liabilities £	Total £
Assets			
Cash and cash equivalents	29,872	-	29,872
	29,872	-	29,872
Liabilities			
Current tax liability	-	530	530
	-	530	530
Equity			29,342
			29,872

There are no material differences between the carrying value and the fair value of the financial instruments

7. Risk management

The principal risks associated with the Company 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

None of the Company's assets present in the balance sheet as at 31 December 2010 are subject to market risk (2009 £nil)

Liquidity risk

The Company has not liquidity risk as it has access to Group funding

Currency risk

The Company has no currency risk as all transactions and balances are denominated in Sterling

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 delegated 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

The Company's exposure to credit risk is not considered to be significant as the credit exposures are with the Group companies (see Note 5). At 31 December 2010 there were no outstanding or impaired loans due to the Company (2009 £nil)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Share capital

	2010 £	2009 £
Authorised		
100 Ordinary Shares of £1	100	100
Allotted, called up and fully paid		
2 Ordinary Shares of £1	2	2

The Company has one class of Ordinary Shares which carry no right to fixed income. Holders of the Ordinary Shares have the right to receive notice of, to attend and to vote in respect of any resolution of the Company. Each Ordinary Share carries an equal entitlement to receive dividends out of the funds of the Company that are legally available for distribution.

9 Capital resources

The Company's capital consists of equity comprising issued share capital and retained earnings. 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.

10 Memorandum items

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

11 Related parties

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

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. Its immediate parent company is National Westminster Bank Plc, a company incorporated in Great Britain and registered in England and Wales.

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

Transactions between the Company, and the UK Government and UK Government controlled bodies, consisted solely of corporation tax which is separately disclosed in note 4. The Company was party to various transactions with The Royal Bank of Scotland plc. These transactions were entered into on an arm's length basis unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Related parties (continued)

The income statement impact for the year ended 31 December 2010 and 31 December 2009 are set out in the tables below

	2010 £	2009 £
The Royal Bank of Scotland plc		
Non-operating income	-	1,917
	-	1,917

Balances with group companies as at 31 December 2010 comprised

	2010 £	2009 £
The Royal Bank of Scotland plc		
Cash at bank – group	1,297,679	29,872
	1,297,679	29,872

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.

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.

12 Post balance sheet events

On 24 June 2011, the Company, together with other members of the RBSG group, became party to a capital support deed (CSD).