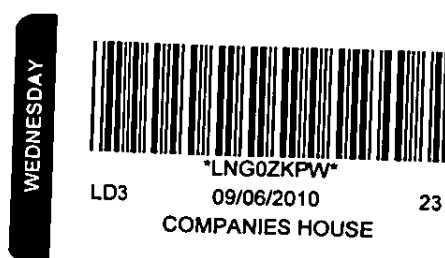


ORCHARDBROOK LIMITED

Annual Report and Financial Statements

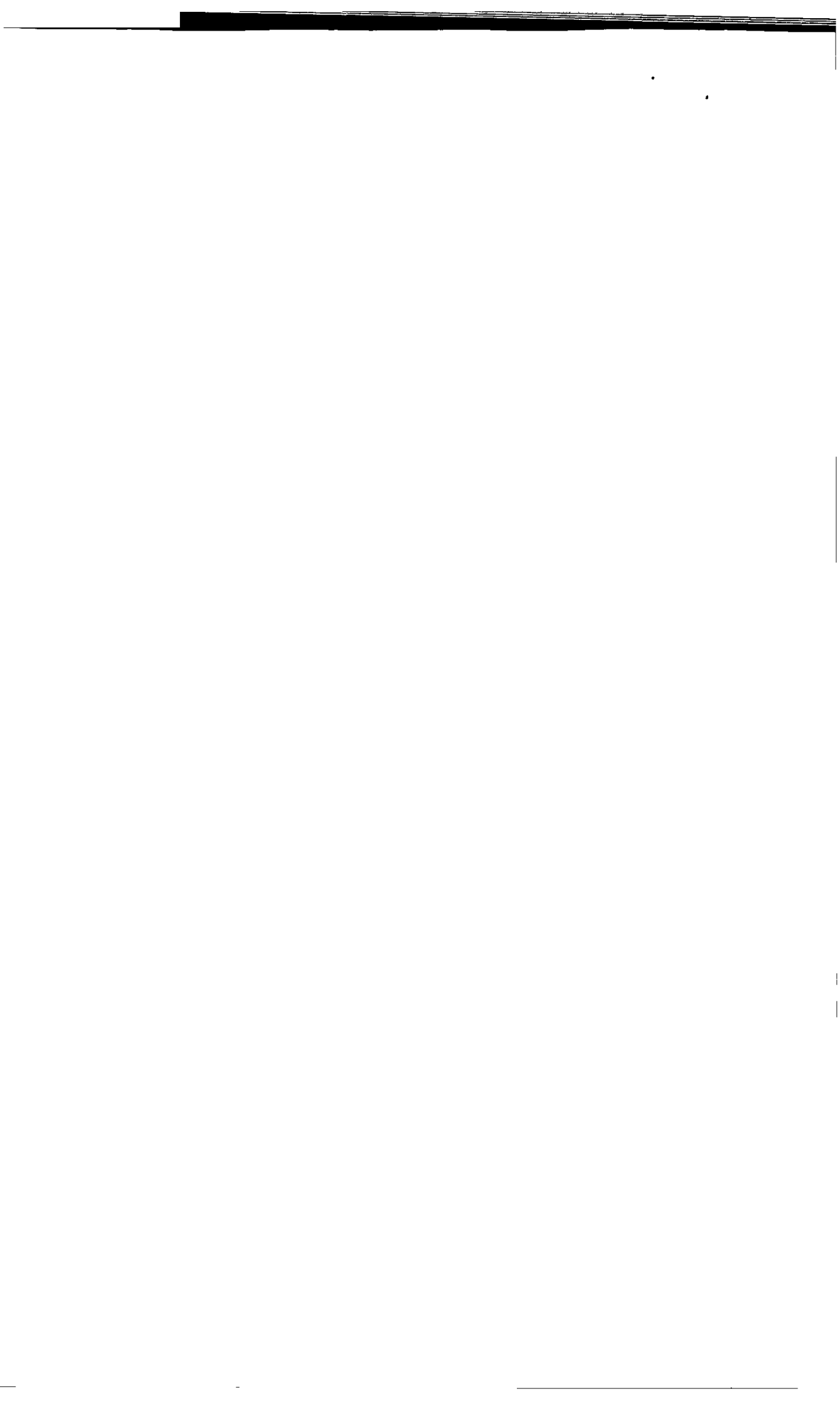
For the year ended 31 December 2009



ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

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ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Capita Trust Company Limited (resigned 5 October 2009)
Capita Trust Corporate Services Limited
Capita Trust Corporate Limited (appointed 5 October 2009)

SECRETARY

Capita Trust Secretaries Limited (appointed 5 October 2009)
Phoenix House
18 King William Street
London
EC4N 7HE

REGISTERED OFFICE

Phoenix House
18 King William Street
London
EC4N 7HE

BANKERS

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

SOLICITORS

Clifford Chance
10 Upper Bank Street
London
E14 5JJ

AUDITORS

Deloitte LLP
London

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

DIRECTORS' REPORT

The directors present their report on the affairs of Orchardbrook Limited ("the Company") together with the financial statements and auditors' report for the year ended 31 December 2009

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment in asset backed loan notes

BUSINESS REVIEW

During the period the Company maintained its investment in asset backed notes. The directors expect the level of activity to remain at the same level in the forthcoming financial year

Loan note interest income, which is a key performance indicator of the Company, is comparable to 2008. Interest margins remain at 0.06% (2008: 0.06%), in line with expectations

RESULTS AND DIVIDENDS

The results for the year and the state of the Company's affairs are set out in the accompanying financial statements

No dividends were declared or paid by the Company during the year (2008: £nil) and the directors do not propose a final dividend (2008: £nil)

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year, except as noted, are as follows

Capita Trust Company Limited (resigned 5 Oct 2009)

Capita Trust Corporate Limited (appointed 5 Oct 2009)

Capita Trust Corporate Services Limited

PRINCIPAL RISKS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES AND PROCEDURES

The directors acknowledge that the global macro-economic indicators and general business environment have remained challenging during 2009 and into 2010. Market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to all underlying businesses and borrowers to whom the Company has exposure. Conditions may deteriorate further due to the continued global financial and economic uncertainty

The principal risks facing the Company are interest rate risk and credit risk. These risks have been monitored on an on-going basis during the year and the Company has policies in place to mitigate these risks, as summarised below

Interest rate risk

The Company financed the investment in Finance for Residential Social Housing plc Series 3 loan notes by borrowing funds denominated in Sterling from The Royal Bank of Scotland plc. This funding carries a fixed interest rate. The investment in Finance for Residential Social Housing plc also yields a fixed interest rate. The interest rate risk is mitigated by matching a fixed rate asset to a fixed rate liability

Credit risk

The Company regularly monitors its investment in Finance for Residential Social Housing Plc to ensure that it is recoverable

GOING CONCERN RISK

The Company is financed by a loan repayable in more than one year and it earns a fixed margin of 0.06% between the interest income from its investment in asset backed notes over the interest expense on the loan funding. The directors have received assurances that the long term loan will not be recalled within one year and will not be repayable until the Company holds sufficient cash

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

DIRECTORS' REPORT

GOING CONCERN RISK (CONTINUED)

After making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

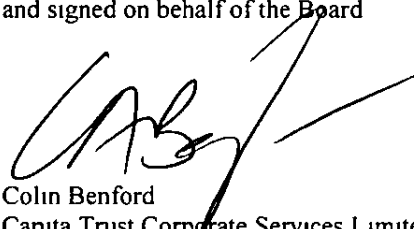
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors confirm that

- (a) so far as each of the directors are aware, there is no relevant information of which the Company's auditors are unaware, and
- (b) each director has taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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



Colin Benford
Capita Trust Corporate Services Limited

02 June 2010

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

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 financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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 enable them to ensure that the financial statements comply with 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ORCHARDBROOK LIMITED

We have audited the financial statements of Orchardbrook Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

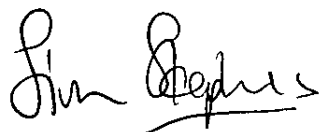
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ORCHARDBROOK 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 Stephens (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

2 June 2010

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

PROFIT AND LOSS ACCOUNT

	Notes	2009 £'000	2008 £'000
Interest receivable	3	633	634
Interest payable	4	(627)	(626)
Administrative expenses	5	(6)	(7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		-	1
Tax on profit on ordinary activities	6	-	(1)
PROFIT ON ORDINARY ACTIVITIES FOR THE FINANCIAL YEAR	12	-	-

The accompanying notes are an integral part of this Profit and Loss Account

The results above arose wholly from continuing operations

There have been no recognised gains and losses attributable to the shareholders other than the profit for the current year and preceding financial year and accordingly no Statement of Total Recognised Gains and Losses is shown

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

BALANCE SHEET

	Note	2009 £'000	2008 £'000
FIXED ASSETS			
Investments	7	9,717	9,717
CURRENT ASSETS			
Debtors	8	159	158
Cash at bank		42	37
		201	195
CREDITORS amounts falling due within one year	9	(178)	(172)
NET CURRENT ASSETS		23	23
TOTAL ASSETS LESS CURRENT LIABILITIES		9,740	9,740
CREDITORS: amounts falling due after more than one year	10	(9,717)	(9,717)
NET ASSETS		23	23
Capital and reserves			
Called-up share capital	11	-	-
Profit and loss account	12	23	23
Shareholders' funds		23	23

The accompanying notes are an integral part of this Balance Sheet

These financial statements of Orchardbrook Limited, registration number 3302753, were approved and authorised for issue by the Board of Directors on 02 June 2010

Signed on behalf of the Board of Directors



Colin Benford
Capita Trust Corporate Services Limited

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

CASH FLOW STATEMENT

	Notes	2009 £'000	2008 £'000
Cash flow from operating activities	14	6	6
Income taxes paid		(1)	-
Net cash flow from operating activities		<u>5</u>	<u>6</u>
Increase in cash	15	<u>5</u>	<u>6</u>

The accompanying notes are an integral part of these statements

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below

Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention. The financial statements have been prepared on a going concern basis as explained in the Directors' Report.

Due to the fact that the nature of the business is to provide loan finance, the directors are of the opinion that it is more appropriate to use interest receivable and interest payable rather than turnover and cost of sales in preparing the Profit and Loss Account.

Interest receivable

Investment income is accounted for on an accruals basis to give a constant rate of return. Investment income includes interest receivable on the Series 3 loan notes acquired from Finance for Residential Social Housing Plc.

Interest payable

Interest expense paid on The Royal Bank of Scotland loan is accounted for on an accruals basis to give a constant rate of return.

Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

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

Investments

Investments held are shown at cost less any provision for impairment.

2. DIRECTORS AND EMPLOYEES

None of the directors received any emoluments for their services to the Company during the year (2008 £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2008 £nil).

The Company does not have any employees (2008 nil).

3. INTEREST RECEIVABLE

	2009 £'000	2008 £'000
Interest income on loan notes	633	632
Bank interest	-	2
	<u>633</u>	<u>634</u>

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

NOTES TO THE FINANCIAL STATEMENTS**4 INTEREST PAYABLE**

	2009 £'000	2008 £'000
Interest on loan	<u>627</u>	<u>626</u>

5. ADMINISTRATIVE EXPENSES

	2009 £'000	2008 £'000
Auditor's fees – audit of the Company's annual accounts	4	4
Other expenses	<u>2</u>	<u>3</u>
	<u>6</u>	<u>7</u>

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	<u>-</u>	<u>1</u>
Current taxation		
Charge for the year	<u>-</u>	<u>1</u>
Tax charge for the year	<u>-</u>	<u>1</u>

The actual tax charge differs from the expected tax charge computed by applying the small companies rate of UK corporation tax of 21% (2008 – 20 75%) as follows

Expected tax charge	-	-
Taxable items under SI 2006/3296 s14(1)(a)(ii)	<u>-</u>	<u>1</u>
Actual tax charge	<u>-</u>	<u>1</u>

With effect from 1 January 2007, the Company elected into the Taxation of Securitisation Companies Regulations 2006

7 INVESTMENTS

	2009 £'000	2008 £'000
Series 3 loan notes issued by Finance for Residential Social Housing Plc	<u>9,717</u>	<u>9,717</u>

The legal maturity of the loan notes is 2058. The directors consider there has been no impairment in value, as they believe the cost of the notes will be realised in full. The annual effective interest rate applicable to these notes at period end was 6.5% (2008: 6.5%).



ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

NOTES TO THE FINANCIAL STATEMENTS**8. DEBTORS**

	2009 £'000	2008 £'000
Accrued interest income on loan notes	159	158

9 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £'000	2008 £'000
Accruals and deferred income	178	171
Tax provision	-	1
	178	172

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2009 £'000	2008 £'000
Loan	9,717	9,717

The directors have received assurances from The Royal Bank of Scotland Plc that the loan will not be recalled within one year and will not be repayable until Orchardbrook holds sufficient cash. Consequently this creditor has been classified as a long-term creditor. The loan carries a fixed rate of interest of 6.44% and the legal maturity is at 2058.

11 CALLED-UP SHARE CAPITAL

	2009 £	2008 £
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called-up and fully paid		
1 ordinary share of £1	1	1

12. PROFIT AND LOSS ACCOUNT

	2009 £'000	2008 £'000
Opening retained profit	23	23
Profit for the year	-	-
Closing retained profit	23	23

ORCHARDBROOK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2009

NOTES TO THE FINANCIAL STATEMENTS**13. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	2009 £'000	2008 £'000
Opening equity shareholders' funds	23	23
Profit for the financial year	-	-
	<u>23</u>	<u>23</u>
Closing equity shareholders' funds	<u>23</u>	<u>23</u>

14. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2009 £'000	2008 £'000
Profit after tax	-	-
Increase in creditors	7	6
Increase in debtors	(1)	-
	<u>6</u>	<u>6</u>
Net cash inflow from operating activities	<u>6</u>	<u>6</u>

15. ANALYSIS OF CHANGES IN NET DEBT

	As at 31 December 2008 £'000	Cash flows £'000	As at 31 December 2009 £'000
Cash at bank	37	5	42
Debt due after one year	(9,717)	-	(9,717)
	<u>(9,680)</u>	<u>5</u>	<u>(9,675)</u>

Reconciliation of net cash flow to movement in net debt

Increase in cash	5
Net debt as at 31 December 2008	<u>(9,680)</u>
Net debt as at 31 December 2009	<u>(9,675)</u>

NOTES TO THE FINANCIAL STATEMENTS**16. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

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.

The Company's ultimate controlling and parent company is The Royal Bank of Scotland Group plc and its immediate controlling company is The Royal Bank of Scotland plc. Both companies are incorporated in Great Britain and registered in Scotland.

As at 31 December 2009, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

17. RELATED PARTY TRANSACTIONS

The results of the Company are consolidated into The Royal Bank of Scotland plc. The table below summarises the transactions that took place with The Royal Bank of Scotland plc during the year under review and the outstanding balances as at 31 December 2009 which wholly relate to the Company's loan payable to The Royal Bank of Scotland plc.

	Balance Sheet asset/(liability) £'000		Profit and Loss Account income/(expense) £'000	
	2009	2008	2009	2008
Interest on loan	-	-	(627)	(626)
Interest accruals	(158)	(156)	-	-
Loan	(9,717)	(9,717)	-	-

The Company is under common control with Finance for Residential Social Housing Plc. The table below summarises the transactions that took place with Finance for Residential Social Housing Plc during the year under review and the outstanding balances as at 31 December 2009 which wholly relate to the Company's investment in loan notes issued by Finance for Residential Social Housing Plc.

	Balance Sheet asset/(liability) £'000		Profit and Loss Account income/(expense) £'000	
	2009	2008	2009	2008
Interest on loan notes	-	-	633	632
Interest accrued	159	158	-	-
Series 3 loan notes	9,717	9,717	-	-

