

Company Registration No: 03637616

HONROE (UK) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2009

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

WEDNESDAY



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HONROE (UK) LIMITED

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

**Douglas James Garnsey
Ian Michael Merriman
James William Lett
Nicholas Thomas Stephen Waterton**

SECRETARY:

Carolyn Jean Whittaker

REGISTERED OFFICE:

**135 Bishopsgate
London
EC2M 3UR**

AUDITORS:

**Deloitte LLP
London**

Registered in England and Wales.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2009

ACTIVITIES AND BUSINESS REVIEW

The directors present their report and the audited accounts for the year ended 31 December 2009

This directors' report has been prepared in accordance with the special provisions relating to small companies under section 415 (1) of the Companies Act 2006

Activity

The principal activity of Honroe (UK) Limited ('the Company') continues to be maintaining and facilitating cash flows in relation to quarterly Spanish Government ship-building subsidies. Loans have been made based off these flows to clients of the Royal Bank of Scotland Group plc and the Company continually funds and allows these cash flows to be reconciled on an ongoing basis

The Company is a subsidiary of The Royal Bank of Scotland Group plc ('RBSG' or the 'Group') which provides it with access to suitable central resources including finance, risk, and human resources. In making investment decisions, the Company has regard to the risk appetite and philosophy set by the board of the RBSG. For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's web site at rbs.com

Review of the year

The directors are satisfied with the development of the Company's activities during the year. They do not anticipate any material change in either the type or level of activities of the Company.

The Company's financial performance is presented in the Statement of Comprehensive Income on Page 8. There were no profits for the period (2008: £nil). The directors do not recommend the payment of a dividend (2008: nil).

At the end of the year, the financial position showed total assets of £85,602,040 (2008: £144,734,123) and equity of £4 (2008: £4).

The Company's exposure to financial risks are disclosed in Note 9.

ACTIVITIES AND BUSINESS REVIEW (continued)**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 Company is funded by facilities from The Royal Bank of Scotland plc. It seeks to minimise its exposure to external financial risks other than credit risk. Further information is disclosed in Note 9.

The directors, having made such enquiries as they considered appropriate have prepared the financial statements on a going concern basis. They considered the announcement of results by The Royal Bank of Scotland Group plc for the year ended 31 December 2009, approved on 24 February 2010 which was prepared 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' 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 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 and loss for the financial year as far as concern members of the company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to

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

DIRECTORS' RESPONSIBILITIES (continued)

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

USE OF FINANCIAL INSTRUMENTS

The Company is funded by facilities from The Royal Bank of Scotland plc. The Company does not enter into any derivative transactions. The Company seeks to minimise its exposure to external financial risks and further information on the financial instruments of the Company, its financial risk management policies and exposures is disclosed in Note 9.

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

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

DIRECTORS' INDEMNITIES

In terms of section 236 of the Companies Act 2006, none of the directors have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

HONROE (UK) LIMITED

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AUDITORS

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

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



N T S Waterton
Director

Date 03/06/10

HONROE (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HONROE (UK) LIMITED

We have audited the financial statements of Honroe (UK) Limited ('the company') for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash flows, and the related Notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and international Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Director's 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 IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

HONROE (UK) LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HONROE (UK) LIMITED
(continued)**

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

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
- 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 Auditors
London, United Kingdom 2010

8 June 2010

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	<u>Notes</u>	<u>2009</u> £	<u>2008</u> £
Interest income	2	7,390,400	9,994,361
Interest expense	3	(7,390,400)	(9,994,361)
Profit before taxation	4	-	-
Taxation	5	-	-
Profit for the year		-	-
Cash flow hedges		-	-
Other comprehensive (loss) / income for the year		-	-
Total comprehensive (loss) / income for the year		-	-
Attributable to Owners of the Company		-	-

The results above arose wholly from continuing activities

The notes on pages 12 to 18 form an integral part of the accounts

HONROE (UK) LIMITED**03637616****BALANCE SHEET****AS AT 31 DECEMBER 2009**

	<u>Notes</u>	<u>2009</u> £	<u>2008</u> £
NON-CURRENT ASSETS			
Loans and Advances	6	85,355,541	144,219,592
CURRENT ASSETS			
Loans and Advances	6	246,499	514,531
TOTAL ASSETS		<u>85,602,040</u>	<u>144,734,123</u>
NON-CURRENT LIABILITIES			
Deposits	7	(85,355,541)	(144,219,592)
CURRENT LIABILITIES			
Deposits	7	(246,495)	(514,527)
TOTAL LIABILITIES		<u>(85,602,036)</u>	<u>(144,734,119)</u>
NET ASSETS		<u>4</u>	<u>4</u>
EQUITY			
Share Capital	8	<u>4</u>	<u>4</u>
SHAREHOLDERS EQUITY		<u>4</u>	<u>4</u>

The notes on pages 12 to 18 form an integral part of the accounts

The accounts on pages 8 to 18 were approved by the Board of Directors and authorised for issue on 03/06/10

Signed on its behalf by


N T S Waterton
Director

HONROE (UK) LIMITED

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital
	£
Balance at 1 January 2008	4
Profit for the period	-
Balance at 31 December 2008	<u>4</u>
Balance at 1 January 2009	4
Profit for the period	-
Balance at 31 December 2009	<u>4</u>

HONROE (UK) LIMITED

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

No Statement of cash flows has been prepared for the year as there was no net movement of cash during the period This was the same for the financial year ended 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS**1 ACCOUNTING POLICIES****(a) Accounting convention**

The financial statements, have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union ("EU")

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted and applied consistently from prior years are set out below. There is no material difference between the fair value and the carrying value of assets and liabilities accounted for at amortised cost.

Financial assets

Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities

All liabilities are recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Interest receivable and interest payable

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities are determined using the effective interest rate method.

(b) Going concern

The accounts (which should be read in conjunction with the Directors' Report) are prepared on a going concern basis and in accordance with IFRS.

NOTES TO THE FINANCIAL STATEMENTS (continued)**ACCOUNTING POLICIES (continued)****(c) Adoption of new and revised standards**

The Company has adopted the revisions to IAS 1 'Presentation of Financial Statements' which introduced a number of changes in the format and content of the Company's financial statements including a statement of changes in equity (showing the components of changes in equity for the period) as a primary financial statement and a single statement of comprehensive income

The Company has also adopted 'Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments Disclosures)' These amendments expand the disclosures required about fair value measurement and liquidity risk

(d) Accounting developments

At the date of approval of these financial statements, although the following Standards and Interpretations were in issue, they were not effective and the Company has not chosen to adopt them early

IFRS 9	Financial Instruments
IFRIC 14	Payment of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRS 2 (Amended)	Group Cash-Settled Share-based payment Transactions
IFRS 1 (Amended)	Additional Exemptions for First-time Adopters
IFRS 1 (Amended)	Limited Exemption from Comparative IFRS7
	Disclosures for First - Time adopters
IAS 24 (Revised 2009)	Related Party Disclosures

Improvements to IFRSs April 2009

The IASB reissued IAS 24, 'Related Party Disclosure' in November 2009 clarifying the existing standard and providing certain exemptions for entities under government control. The revised standard is effective for annual periods beginning on or after 1 January 2011

The IASB issued IFRS 9 'Financial Instruments' in November 2009. This standard makes changes to the framework for the classification and measurement of financial assets and will have an effect on the Company's financial statements. The Company is assessing this impact which is likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project

With the exception of these, the directors anticipate that the adoption of these Standards and Interpretations in future periods should not have a material impact on the financial statements of the Company when the relevant standards come into effect

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Revenue	2009	2008
	£	£
Interest Income	7,390,400	9,994,361
	<u>7,390,400</u>	<u>9,994,361</u>

3. Expenditure	2009	2008
	£	£
Interest Expense	7,390,400	9,994,361
	<u>7,390,400</u>	<u>9,994,361</u>

4. Profit before taxation

Audit fees for the audit of the statutory accounts of £5,000 (2008 £5,000) are borne by The Royal Bank of Scotland plc

5. Taxation

No tax charge arose during the period

6. Assets	2009	2008
	£	£
Loans and advances	85,602,040	144,734,123
	<u>85,602,040</u>	<u>144,734,123</u>

The balance consists of 21 loans. The principal amount of these loans ranges from the highest, being EUR 17,926,860 to the lowest, EUR 72,398. The interest rates are fixed and range from highest to lowest 9.3% to 5.0% respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Liabilities	2009 £	2008 £
Deposits	85,602,036	144,734,119
	<u>85,602,036</u>	<u>144,734,119</u>

The balance consists of 21 deposits. The principal amount of these deposits ranges from the highest, being EUR 17,926,860 to the lowest, EUR 72,398. The interest rates are fixed and range from highest to lowest 9.3% to 5.0% respectively.

8. Share Capital	2009 £	2008 £
Authorised Share Capital:		
1,000,000,000 Ordinary Shares (£1)	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Allotted, called up and fully paid		
4 ordinary shares (£1)	<u>4</u>	<u>4</u>

9. Financial Instruments and Risk Management

Capital Risk Management

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

Accounting Policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1.

NOTES TO FINANCIAL STATEMENTS (continued)

Financial Instruments and Risk Management (continued)

Categories of Financial Instruments

The Company's only financial assets are cash (on deposit with group undertakings) and balances owed by group undertakings which are categorised as loans and receivables, as defined in IAS 39

The Company's financial liabilities are balances owed to group undertakings (consisting of subordinated liabilities and interest due thereon) and third party trade payables, all of which are categorised as being measured at amortised cost, as defined in IAS 39

	2009 £	2008 £
Total Assets	85,602,040	144,734,123
Less		
Total Liabilities	(85,602,036)	(144,734,119)
Adjusted net equity	<u>4</u>	<u>4</u>

Risk Management

The Company uses a comprehensive framework for managing risks established by the Royal Bank of Scotland group of companies. The risks associated with the Company are as follows

Credit risk

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company. The Company has no significant credit risk as all loans and receivables are with group undertakings. No amounts owed by group undertakings are past due.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

Liquidity risk is mitigated by the routine monitoring of key management information.

The table below details the expected maturity of the Company's material liabilities as at the balance sheet date. The table has been drawn up based on the undiscounted net cash outflows.

The directors consider that, the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS (continued)

Risk Management (continued)

As at 31 December 2009

	Less than 1 month and on demand £000s	1 – 3 months £000s	3 months to 1 year £000s	1 – 5 years £000s	5+ years £000s
Deposits	19	15,012	23,808	53,077	2,242

10. Employees and Directors

None of the directors received any emoluments from the Company for their services to the Company during the current year or the prior year

None of the directors had any material interest in any contract of significance in relation to the business of the Company during the current year or the prior year

The Company did not have any employees in the current year or the prior year

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 and its immediate parent company is The Royal Bank of Scotland plc. Both companies are incorporated in Great Britain and registered in Scotland.

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

NOTES TO FINANCIAL STATEMENTS (continued)

Related Parties (continued)

The Company was party to various transactions with The Royal Bank of Scotland plc. These transactions were entered into on an arms length basis unless stated otherwise and in respect of the surrender of tax losses (see Note 5). The income statement impact and outstanding balances arising from these transactions as at 31 December 2009 are set out below.

	2009 £	2008 £
Income statement impact		
- Interest income	7,390,400	9,994,361
- Interest expense	(7,390,400)	(9,994,361)
	-	-
	2009 £	2008 £
Balance owed to the company		
- Unsecured short-term Deposits	85,602,040	144,734,123
Balance owed by the company		
- Unsecured short-term Loans	(85,602,036)	(144,734,119)
	4	4