

Company Registered No: 03414708

THE ONE ACCOUNT LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2011



**Group Secretariat
The Royal Bank of Scotland Group plc
Gogarburn
PO Box 1000
Ground Floor, House G
Edinburgh
EH12 1HQ**

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THE ONE ACCOUNT LIMITED

03414708

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

F L Davis
L D Matheson

SECRETARY:

D J Putnam

REGISTERED OFFICE:

Waterhouse Square
138-142 Holburn
London
EC1N 2TH

AUDITOR:

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

Registered in England and Wales

DIRECTORS' REPORT

The directors present their report and the audited financial statements for The One Account Limited ("the Company") for the year ended 31 December 2011

ACTIVITIES AND BUSINESS REVIEW**Principal activity**

The principal activity of the Company continues to be the marketing and administration of flexible and current account mortgages, which are personal bank accounts with The Royal Bank of Scotland plc ("RBS plc") secured against the customer's home. The Company is also the administrator of the NatWest One Account and the Direct Line One Account.

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 of the central resources it needs and determines policies in 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. Post balance sheet events are described in note 18 to the financial statements.

The directors are renegotiating the existing service agreement historically in place with RBS plc which was initially set up to facilitate the Joint Venture arrangements with Virgin which have been terminated. A material impact on the Company's income is expected to be effective from January 2012. It is not anticipated that as a result of this review the directors will wind up the Company in the next twelve months and they confirm, therefore, that the financial statements have been prepared on a going concern basis.

Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 7.

Income fell by £1,359k (2010 grew by £23,881k) and expenses fell by £961k (2010 £2,116k). The operating profit before taxation for the year was £177,727k (2010 £178,125k). The retained profit for the year was £130,712k (2010 £128,292k) an increase of 1.9% over 2010.

At the end of the year, the balance sheet showed total assets of £322,234k (2010 £193,059k).

The directors did not recommend the payment of a dividend (2010 £138,000k).

On 27 June 2012, the directors approved an interim dividend for the year ended 31 December 2012 of £135,000k. This is due to be paid prior to the end of June 2012.

Principal risks and uncertainties

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

The Company seeks to minimise its exposure to external financial risks other than equity and credit risk, which the Company seeks to manage appropriately. Further information on financial risk management policies and exposures is disclosed in note 12.

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. They considered the accounts of the Group for the year ended 31 December 2011, approved on 22 February 2012, which were 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.

From 1 January 2011 to date no changes have taken place.

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

- in so far as he/she 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 he/she 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.

Director' indemnities

In terms of section 236 of the Companies Act 2006, F L Davies and L D Matheson have been granted Qualifying Third Party Indemnity Provisions by the Group.

DIRECTORS' REPORT (continued)

Policy and practice on payment of creditors

The Company follows the policy and practice on payment of trade creditors determined by The Royal Bank of Scotland Group plc, which is committed to maintaining a sound commercial relationship with its suppliers. Consequently, the policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay them within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

At 31 December 2011, the Company had £30k of trade creditors (2010 £50k)

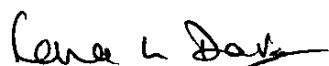
Post balance sheet events

On 27 June 2012, the directors approved an interim dividend for the year ended 31 December 2012 of £135,000k. This is due to be paid prior to the end of June 2012.

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



F L Davis
Director
Date 27 June 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ONE ACCOUNT LIMITED

We have audited the financial statements of The One Account Limited ('the Company') for the year ended 31 December 2011 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 18. 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 Statement of Directors' Responsibilities, 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 (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. In addition, we read all 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 31 December 2011 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.

Separate opinion in relation to IFRS as issued by the IASB

As explained in note 1 to the financial statements, the Company in addition to applying IFRS as adopted by the European Union, has also applied IFRS as issued by the International Accounting Standards Board (IASB).

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ONE ACCOUNT 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



David Claxton, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
Glasgow
Scotland
27 June 2012

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2011

Continuing operations	Note	2011 £'000	2010 £'000
Revenue	3	189,785	191,608
Interest receivable		1,478	1,014
Total income		191,263	192,622
Operating expenses	4	(13,536)	(14,497)
Profit before tax		177,727	178,125
Tax charge	5	(47,015)	(49,833)
Profit and total comprehensive income for the year		130,712	128,292

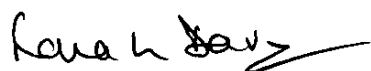
The accompanying notes on pages 11 to 21 form an integral part of these financial statements

BALANCE SHEET as at 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Cash at bank	7, 11	165,407	26,819
Amounts due from Group undertakings	11, 16	156,242	165,479
Plant and equipment	8, 11	509	705
Accrued income	11	76	56
Total assets		322,234	193,059
Liabilities			
Amounts due to Group undertakings	11, 16	4,454	2,829
Current tax liability	11	47,324	50,143
Other liabilities and accruals	9, 11	48	81
Deferred taxation	10, 11	830	1,140
Total liabilities		52,656	54,193
Equity			
Called up share capital	13	44,400	44,400
Retained earnings		225,178	94,466
Total equity	11	269,578	138,866
Total liabilities and equity		322,234	193,059

The accompanying notes on pages 11 to 21 form an integral part of these financial statements

The financial statements were approved by the Board of directors on 27 June 2012 and signed on its behalf by



F L Davis
Director

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2011

	Notes	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2010		44,400	104,174	148,574
Profit for the year		-	128,292	128,292
Dividends paid	6	-	(138,000)	(138,000)
At 31 December 2010		44,400	94,466	138,866
Profit for the year		-	130,712	130,712
At 31 December 2011		44,400	225,178	269,578

Total comprehensive income for this year of £130,712 (2010 £128,292) was wholly attributable to the owners of the Company

The accompanying notes on pages 11 to 21 form an integral part of these financial statements

CASH FLOW STATEMENT for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Operating activities			
Profit before tax		177,727	178,125
Adjustments for			
Depreciation of plant and equipment	4	196	290
Net cash flows from trading activities		177,923	178,415
Decrease/(increase) in amounts due from Group undertakings		9,237	(141,150)
(Increase)/decrease in accrued income		(20)	7
Increase/(decrease) in amounts due to Group undertakings		1,625	(103)
(Decrease)/Increase in other liabilities and accruals		(33)	21
Net cash flows from operating activities before tax		188,732	37,190
Income taxes paid		(50,144)	(42,938)
Net cash flows from/(used in) operating activities		138,588	(5,748)
Financing activities			
Dividends paid	6	-	(138,000)
Net cash flows used in financing activities		-	(138,000)
Net increase/(decrease) in cash and cash equivalents		138,588	(143,748)
Cash and cash equivalents at 1 January		26,819	170,567
Cash and cash equivalents at 31 December	7	165,407	26,819

The accompanying notes on pages 11 to 21 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 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 financial statements are prepared on the historical cost basis. Historic cost is generally based on the fair value of the consideration given in exchange for the assets. The principal policies adopted are set out below.

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 England and Wales. The Company's financial statements 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 January 2011. They have had no material effect on the Company's financial statements for the year ended 31 December 2011.

b) 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.

c) Revenue recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities are determined using the effective interest method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

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.

d) 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 not recognised on temporary differences that arise from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. 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.

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

On initial recognition, financial assets are classified as loans and receivables

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. 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 (see accounting policy 1(c)) less any impairment losses.

f) Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Financial assets are impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

g) Financial liabilities

On initial recognition financial liabilities are classified as held at amortised cost.

Amortised cost

All financial liabilities are measured at amortised cost using the effective interest method (see accounting policy 1(c)).

h) 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, or cancelled, or expires.

i) 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.

j) Plant and equipment

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy 1(k)). Where an item of 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 plant and equipment over their estimated useful lives.

The depreciable amount is the cost of an asset less its residual value.

Estimated useful lives are as follows:

Computer and other equipment	3 – 15 years
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The residual value and useful life of plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

k) Impairment of plant and equipment

At each reporting date, the Company assesses whether there is any indication that its 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****1) 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
- 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****l) Accounting developments (continued)**

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.

Amendments 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 IFRS 2009-2011 Cycle" in May 2012 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 accounting periods beginning on or after 1 January 2013 and are not expected to have a material effect on the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. Critical accounting estimates and judgements**

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK Company Law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable accounting standard, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. There are no judgements and assumptions involved in the Company's accounting policies that are considered by the Board to be significant to the portrayal of its financial condition.

3. Revenue

	2011 £'000	2010 £'000
Revenue	189,785	191,608

Revenue is principally attributable to the marketing and administration of flexible and current account mortgages.

Revenue is derived from the margin between interest paid by customers on their bank accounts and the funding cost of the assets required to match the customer balances on the Group balance sheet less bad debt expense incurred by the Group.

Revenue is a recharge from the Group to the Company.

4. Operating expenses

	2011 £'000	2010 £'000
Management recharge	13,292	14,181
Depreciation	196	290
Other administration expenses	48	26
	13,536	14,497

Management recharges relate to the Company's share of Group resources such as the use of IT platforms, mortgage operations staff and a share of central resources including staff. These are recharged on an annual basis by the Group.

The Company has no staff and the employees are employed by the Group, the ultimate parent company, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based and pensions. The directors of the Company do not receive remuneration for specific services provided to the Company.

The auditor's remuneration for statutory audit work for the Company was £12k (2010: £12k), this cost was borne by the Group. Remuneration paid to the auditors for non-audit work for the Company was £12k (2010: £24k).

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Taxation

	2011 £'000	2010 £'000
Current taxation		
UK corporation tax charge for the year	47,325	50,143
Deferred taxation		
Credit for the year	(310)	(310)
Tax charge for the year	47,015	49,833

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 26.5% (2010 average tax rate 28%) as follows

	2011 £'000	2010 £'000
Profit for the year	177,727	178,125
Expected tax charge	47,086	49,875
Reduction in deferred tax liability following change in rate of UK Corporation tax	(71)	(42)
Actual tax charge for the year	47,015	49,833

The changes to tax rates and capital allowances proposed in the Budget on 22 June 2010, 23 March 2011 and 21 March 2012 are not expected to have a material effect on the Company

6. Ordinary dividends

	2011 £'000	2010 £'000
Interim dividend	-	138,000

Dividends of £140,000k have been approved since 31 December 2011 to the date of approval of these accounts (2010 £nil)

7. Cash at bank

	2011 £'000	2010 £'000
Demand deposits with banks - Group	165,407	26,819

8. Plant and equipment

	2011 £'000	2010 £'000
Computer and other equipment		
Cost		
At 1 January and 31 December	5,503	5,503
Accumulated depreciation		
At 1 January	4,798	4,508
Charge for the year	196	290
At 31 December	4,994	4,798
Net book value		
At 31 December	509	705

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Other liabilities and accruals

	2011 £'000	2010 £'000
Other liabilities	6	6
Trade Payables	30	50
Accruals	12	25
	48	81

10. Deferred tax

The following are the tax assets and liabilities recognised by the Company, and the movements thereon

	Accelerated Capital allowances £'000	IFRS Transition £'000	Total £'000
At 1 January 2010	(41)	(1,409)	(1,450)
Credit to Statement of Comprehensive Income	33	277	310
At 31 December 2010	(8)	(1,132)	(1,140)
Credit to Statement of Comprehensive Income	16	294	310
At 31 December 2011	8	(838)	(830)
		2011 £'000	2010 £'000
Deferred tax liabilities		830	1,140

The Finance Act 2011 has reduced the corporation tax rate from 27% to 25% with effect from 1 April 2012. As a consequence the closing deferred liabilities have been recognised at an effective rate of 25%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. 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.

	Loans and receivables £'000	At amortised cost £'000	Non financial assets/ liabilities £'000	Total £'000
2011				
Assets				
Cash at bank	165,407	-	-	165,407
Amounts due from Group undertakings	156,242	-	-	156,242
Plant and equipment	-	-	509	509
Accrued income	-	-	76	76
	321,649	-	585	322,234
Liabilities				
Amounts due to Group undertakings	-	4,454	-	4,454
Current tax liability	-	-	47,324	47,324
Other liabilities and accruals	-	30	18	48
Deferred taxation	-	-	830	830
	-	4,484	48,172	52,656
Equity				269,578
				322,234
2010				
Assets				
Cash at bank	26,819	-	-	26,819
Amounts due from Group undertakings	165,479	-	-	165,479
Plant and equipment	-	-	705	705
Accrued income	-	-	56	56
	192,298	-	761	193,059
Liabilities				
Amounts due to Group undertakings	-	2,829	-	2,829
Current tax liability	-	-	50,143	50,143
Other liabilities and accruals	-	50	31	81
Deferred taxation	-	-	1,140	1,140
	-	2,879	51,314	54,193
Equity				138,866
				193,059

There is no material difference between the carrying value and the fair value of the Company's financial instruments.

All financial instruments at 31 December 2011 and 2010 were repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (continued)**12. Risk management**

The principle risks associated with the Company are as follows

Interest rate risk

Structural interest rate risk arises where assets and liabilities have different repricing maturities

The financial liabilities of the Company consist of amounts due to Group undertakings and third party trade payables. The amounts due to Group undertakings do not have any significant interest rate risk as they are due primarily on demand. The third party trade payables do not have any significant interest rate risk as the Company follows the policy and practice on payment of creditors determined by the Group as detailed in the directors' report.

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 risk appetite for the risk that customers will be unable to meet their obligations to the Company. The Company operates controls and policies put in place by the Group.

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 must be specifically granted in writing to all individuals involved in the granting of credit approval, whether this is exercised personally or collectively as part of a credit committee. In exercising credit authority, the individuals act independently
- 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

Liquidity risk

Liquidity risk comprises the risk that a company cannot meet its financial obligations in full. Through its access to Group funding, the Company is able to mitigate its exposure to liquidity risk.

Market risk

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

The principal market risks to which the Company is exposed is interest rate

NOTES TO THE FINANCIAL STATEMENTS (continued)**13. Share capital**

Equity shares	2011 £'000	2010 £'000
Authorised:		
100,000,000 Ordinary Shares of £1	100,000	100,000
Issued and fully paid:		
44,400,001 Ordinary Shares of £1	44,400	44,400

The Company has one class of Ordinary Shares which carry no right to fixed income

14. Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings, loans from group undertakings and subordinated loans. 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.

15. Commitment and contingent liabilities

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 funds (the Company's available resources). 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.

16. Related party transactions**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 consisted solely of corporation tax and VAT.

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 31 December 2011, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated.

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 31 December 2011, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

NOTES TO THE FINANCIAL STATEMENTS (continued)**16. Related party transactions (continued)**

Revenue with other Group companies in the year 1 January to 31 December 2011 comprised

	2011 £'000	2010 £'000
Income:		
Revenue – The Royal Bank of Scotland plc	189,785	191,608
Interest receivable - The Royal Bank of Scotland plc	1,478	1,014
	191,263	192,622

Expense:

Management recharge - The Royal Bank of Scotland plc	13,292	14,181
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Balances with other Group companies in the period 1 January to 31 December 2011 comprised

	2011 £'000	2010 £'000
Amounts due from:		
The Royal Bank of Scotland plc	156,242	165,479
Amounts due to:		
The Royal Bank of Scotland plc	4,454	2,829

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.

17. Segmental analysis

All of the Company's business is transacted within Great Britain. The directors consider the provision of finance for house purchases to be a single class of business.

18. Post balance sheet event

On 27 June 2012, the directors approved an interim dividend for the year ended 31 December 2012 of £135,000k. This is due to be paid prior to the end of June 2012.