

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2010

Member of Lloyds Banking Group

Registered Number 02799756

THURSDAY



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COMPANIES HOUSE

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

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**DIRECTORS**

A J Smith  
C G Dowsett

**SECRETARY**

P Gittins

**INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
Erskine House  
68-73 Queen Street  
Edinburgh  
EH2 4NH

**REGISTERED OFFICE**

Level 7  
Bishopsgate Exchange  
155 Bishopsgate  
London  
EC2M 3YB

**REGISTERED NUMBER**

02799756

REPORT OF THE DIRECTORS

REVIEW OF BUSINESS

During the year the principal activity of the company was to operate as an investment holding company and this is likely to continue for the foreseeable future. The directors consider the results for the year to be satisfactory.

The results of the company show a loss before taxation of £4,720,000 (2009 £1,927,000) for the year as set out in the statement of comprehensive income on page 5. The company has shareholder's equity of £113,568,000 (2009 £115,959,000).

The company is reliant on funding ultimately provided by Lloyds Banking Group plc. Owing to uncertainty in financial markets, Lloyds Banking Group plc participates in government sponsored measures to improve funding and liquidity. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the company will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2009 £nil).

DIRECTORS

The names of the directors of the company are shown on page 1. The following change in directors has taken place during the year and since the year ended:

	Appointed	Resigned/ceased to be a director
C Richards	5 November 2007	23 April 2010
Y E Sharp	5 November 2007	30 June 2010
D L Shindler	5 November 2007	09 July 2010
A J Smith	08 July 2010	-
C G Dowsett	08 July 2010	-

DIRECTORS' INDEMNITIES

The Directors have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision". This contract came into force during the financial year and remains in force. It is available for inspection at the registered office of Lloyds Banking group plc.

RESPONSIBILITIES OF DIRECTORS

The directors are responsible for preparing 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the financial statements comply with IFRSs as adopted by the European Union, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and which 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.

## OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

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### REPORT OF THE DIRECTORS (CONTINUED)

#### AUDITORS

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and PricewaterhouseCoopers LLP will therefore continue in office

#### AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the directors' report is approved

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

#### PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. For further details please refer to note 14 - 'Risk management of financial instruments' in these financial statements

#### KEY PERFORMANCE INDICATORS ('KPIs')

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

#### POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS), regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Orderline 0845-0150010 (quoting ref URN 04/606)

The company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

As the company owed no amounts to trade creditors at 31 December 2010, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2009 nil)

On behalf of the board



P Gittins  
Secretary

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

We have audited the financial statements of Old Broad Street Investments Limited (Number 2) for the year ended 31 December 2010 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Shareholders Equity, the Cash Flow Statement and the related notes. 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.

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, set out on page 2, 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.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**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 the 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 loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

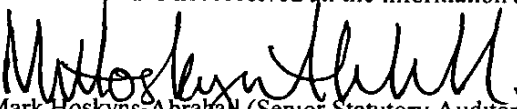
**Opinion on other matter prescribed by the Companies Act 2006**

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.

**Matters on which we are required to report by exception**

We have nothing to report to you 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

  
Mark Hoskyns-Abraham (Senior Statutory Auditor)  
for and on behalf of Price WaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

Edinburgh

Date 30 June 2011.

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2010

	Note	2010 £000	2009 £000
Finance income	2	1,486	3,955
Finance costs	3	(6,206)	(5,882)
<b>Loss before taxation</b>	4	<b>(4,720)</b>	<b>(1,927)</b>
Taxation credit	5	2,329	539
<b>Total comprehensive loss attributable to owners of the parent</b>	13	<b>(2,391)</b>	<b>(1,388)</b>

The accompanying notes are an integral part of the Financial Statements

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

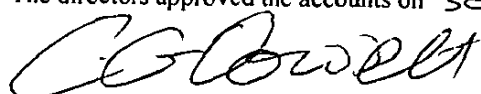
Registered Number 02799756

BALANCE SHEET

As at 31 December 2010

	Note	£000	2010 £000	2009 £000	£000
<b>Assets</b>					
<b>Current assets</b>					
Amounts owed by group companies	6		263,299		262,921
<b>Total assets</b>			<u>263,299</u>		<u>262,921</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Amounts owed to group companies	7		4,601		5,293
<b>Non-current liabilities</b>					
Other borrowed funds	8	117,930		111,724	
Deferred taxation	9	27,200	145,130	29,945	141,669
<b>Total liabilities</b>			<u>149,731</u>		<u>146,962</u>
<b>Equity</b>					
Share capital	10	960		960	
Share premium	11	854		854	
Capital contribution	12	101,500		101,500	
Retained earnings	13	10,254	113,568	12,645	115,959
<b>Total liabilities and equity</b>			<u>263,299</u>		<u>262,921</u>

The directors approved the accounts on 30 June 2011



C G Dowsett  
Director

The accompanying notes are an integral part of the Financial Statements

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Share premium £000	Capital contribution £000	Retained earnings £000	Total £000
<b>Balance at 1 January 2009</b>	10, 11, 12, 13	960	854	101,500	14,033	117,347
<b>Total comprehensive loss for the period</b>						
Loss for the year	13	-	-	-	(1,388)	(1,388)
<b>Balance at 31 December 2009 and 1 January 2010</b>	10, 11, 12, 13	960	854	101,500	12,645	115,959
<b>Total comprehensive loss for the period</b>						
Loss for the year	13	-	-	-	(2,391)	(2,391)
<b>Balance at 31 December 2010</b>	10, 11, 12, 13	960	854	101,500	10,254	113,568

The accompanying notes are an integral part of the Financial Statements



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OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

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CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 £000	2009 £000
<b>Net cash flow from operating activities</b>	15	<u>379</u>	<u>(146)</u>
<b>Financing activities</b>			
Movement in bank deposits		<u>(378)</u>	<u>148</u>
<b>Net cash flow from financing activities</b>		<u>(378)</u>	<u>148</u>
Net increase in cash and cash equivalents		1	2
Cash and cash equivalents at beginning of the year		<u>3</u>	<u>1</u>
<b>Cash and cash equivalents at end of the year</b>	6	<u>4</u>	<u>3</u>

The accompanying notes are an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

**1 Accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below

The financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and all derivative contracts, on the basis of IFRS

In preparing these financial statements the company has adopted IAS 1 (revised) Presentation of financial statements. The adoption of IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the company. In accordance with the transitional requirements of the standards, the company has provided full comparative information.

**Critical accounting estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

**- Impairment**

The company regularly reviews the portfolio of financial assets for impairment. In determining whether an impairment has occurred at the balance sheet date the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings, such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on repayments or values of underlying assets. Where this is the case, the impairment loss is measured in accordance with note 1(a) below.

**(a) Impairment**

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and/or interest,
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty,
- Restructuring of debt to reduce the burden on the borrower,
- Breach of loan covenants or conditions, and
- Initiation of bankruptcy or individual voluntary arrangement proceedings.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's implicit rate in the lease.

**(b) Taxation**

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises 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 determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

**1 Accounting policies (continued)**

**(c) Dividends**

Dividends are recognised in equity only when the company has the obligation to pay the ordinary shareholder

**(d) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with a maturity of less than three months

**(e) Foreign currency translation**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The financial statements are presented in sterling, which is the company's functional and presentation currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end and exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges

**(f) Other borrowed funds**

Other borrowed funds comprise preference shares that are classified as debt, using the effective interest method Preference shares are classified as debt where they are redeemable on a specific date, or at the option of the shareholders, or if dividend payments are not discretionary Dividends on preference shares classified as debt are recognised in the income statement through interest expense

**2 Finance income**

	2010 £000	2009 £000
Interest received from group companies	1,486	3,955
	<u>1,486</u>	<u>3,955</u>

**3 Finance costs**

	2010 £000	2009 £000
Interest payable to other group companies	-	2
Amortisation charge (Note 8)	6,206	5,880
	<u>6,206</u>	<u>5,882</u>

**4 Loss before taxation**

Audit fees for the company are borne by the immediate parent company, the audit fee attributed to this company for the year was £6,700 (2009 £6,500) The company has no employees and the directors received no remuneration in respect of their services to the company

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

**5 Taxation credit**

	2010 £000	2009 £000
The credit for the year comprises		
Group relief payable on current taxation loss for the year	(416)	(1,107)
Deferred taxation (Note 9)	2,745	1,646
	<hr/>	<hr/>
Total taxation credit for the year	2,329	539
	<hr/>	<hr/>

Taxation on the company's loss for the year differed from the taxation credit/ that would arise using the standard rate of corporation tax of 28% (2009 28%)

	2010 £000	2009 £000
Loss before taxation	(4,720)	(1,927)
	<hr/>	<hr/>
Taxation credit at the standard rate of corporation tax	1,322	539
Change in rates of corporation tax on deferred tax liabilities	1,007	-
	<hr/>	<hr/>
Total taxation credit for the year	2,329	539
	<hr/>	<hr/>

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28 per cent to 27 per cent with effect from 1 April 2011. As a result the company's deferred tax liability will reduce by £1,007,000, resulting in a credit to the income statement of £1,007,000

**6 Amounts owed by group companies**

	2010 £000	2009 £000
Cash at bank	4	3
Amounts due from parent undertakings	263,295	262,918
	<hr/>	<hr/>
	263,299	262,921
	<hr/>	<hr/>

For further details please refer to note 16

**7 Amounts owed to group companies**

	2010 £000	2009 £000
Amounts due to fellow subsidiary undertakings	4,185	4,186
Group relief payable	416	1,107
	<hr/>	<hr/>
	4,601	5,293
	<hr/>	<hr/>

For further details please refer to note 16

NOTES TO THE FINANCIAL STATEMENTS

**8 Other borrowed funds**

	2010 £000	2009 £000
Preference shares	117,930	111,724
	<u>117,930</u>	<u>111,724</u>

The company issued zero coupon preference shares on 22 April 2002 to Bank of Scotland plc. The company received £218,670,000 for 218,670,000 preference shares with a nominal value of £1 each. These preference shares are redeemable on 22 April 2022 at par value of £1 per share. The preference shares are accounted for as a financial liability as they are redeemable at a predetermined future date and amount. In line with accounting policies they have been valued at the date of issue at fair value and are subsequently measured using the effective interest rate method to accrete the book value to the redemption amount at the redemption rate.

**9 Deferred taxation**

	2010 £000	2009 £000
At beginning of the year	29,945	31,591
Deferred taxation credit for the year	(1,738)	(1,646)
Adjustment in respect of tax rate change	(1,007)	-
	<u>27,200</u>	<u>29,945</u>

The deferred taxation credit in the income statement comprises the following differences

	2010 £000	2009 £000
Temporary differences	(1,738)	(1,646)
Adjustment in respect of tax rate change	(1,007)	-
	<u>(2,745)</u>	<u>(1,646)</u>

Deferred taxation liabilities are comprised as follows

	2010 £000	2009 £000
Temporary differences	<u>27,200</u>	<u>29,945</u>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

**10<sup>12</sup> Share capital**

	2010 £	2009 £
Authorised		
1 'A' ordinary share of £0.50	1	1
5,999,999 ordinary shares of £0.50 each	2,999,999	2,999,999
	-----	-----
	3,000,000	3,000,000
	-----	-----
Allotted, issued and fully paid		
1 'A' ordinary share of £0.50	1	1
1,920,002 ordinary shares of £0.50 each	960,001	960,001
	-----	-----
	960,002	960,002
	-----	-----

The company's immediate parent company is Bank of Scotland plc. The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc (formerly Lloyds TSB Group plc), a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member. Bank of Scotland plc is the parent company of the smallest such group of undertakings. Copies of the group accounts of both may be obtained from the company secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the group's regulatory capital requirements.

The company's parent manages the company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing.

The company's capital comprises all components of equity, movements in which appear in the statement of changes in equity.

**11 Share premium**

	2010 £000	2009 £000
As at 1 January	854	854
	-----	-----
As at 31 December	854	854
	-----	-----

**12 Capital contribution**

	2010 £000	2009 £000
As at 1 January	101,500	101,500
	-----	-----
As at 31 December	101,500	101,500
	-----	-----

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

**13 Retained earnings**

	2010 £000	2009 £000
At 1 January	12,645	14,033
Loss for the year	(2,391)	(1,388)
	<hr/>	<hr/>
At 31 December	10,254	12,645
	<hr/>	<hr/>

**14 Risk management of financial instruments**

The primary financial risks affecting the company are credit risk and liquidity risk and market risk (which include interest rate risk and foreign currency risk) Information on the management of these financial risks and further disclosures is given below

In accordance with IAS39 "Financial instruments Recognition and measurement", all financial assets are designated as held at amortised cost The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses are recognised

**Credit risk management**

The maximum credit risk exposure of the group in the event of other parties failing to perform their obligations is detailed below The maximum exposure to loss is considered to be the balance sheet carrying amount at 31 December 2010

	2010 £000	2009 £000
Financial assets which are neither past due nor impaired		
Amounts owed by group companies	263,299	262,921
	<hr/>	<hr/>
Total credit risk exposure	263,299	262,921
	<hr/>	<hr/>

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc (formerly Lloyds TSB Group plc) Each financial asset is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group The company has no credit risk to a third party, all assets are recoverable from the company's ultimate parent, Lloyds Banking Group plc (formerly Lloyds TSB Group plc) being a AA (2009 AA) credit rated financial institution

At 31 December 2010 and 2009 there were no impairments relating to credit risk against any financial assets

NOTES TO THE FINANCIAL STATEMENTS

4 Risk management of financial instruments (continued)

Liquidity risk management

At 31 December 2010	Bank borrowings £000	Other liabilities £000	Total liabilities £000
On demand	-	416	416
Up to 1 month	-	-	-
1 – 3 months	-	-	-
3 – 12 months	4,185	-	4,185
1 – 5 years	-	-	-
Over 5 years	-	117,930	117,930
<b>Total</b>	<b>4,185</b>	<b>118,346</b>	<b>122,531</b>
At 31 December 2009	Bank borrowings £000	Other liabilities £000	Total liabilities £000
On demand	-	1,107	1,107
Up to 1 month	-	-	-
1 – 3 months	-	-	-
3 – 12 months	4,186	-	4,186
1 – 5 years	-	-	-
Over 5 years	-	111,724	111,724
<b>Total</b>	<b>4,186</b>	<b>112,831</b>	<b>117,017</b>

Bank borrowings and the associated interest payable upon them are borrowed short term and all borrowings are advanced by a fellow subsidiary undertaking. Other liabilities are repayable on demand.

Interest rate risk management

Interest rate risk is the risk that the future cash flows and fair values of a financial instrument may fluctuate because of changes in market interest rates.

The company takes into account the exposure on fluctuations in the prevailing levels of market interest rates on its cash flows when structuring its operations by ensuring the interest terms of its finance income is matched to the variable interest terms of the borrowing used to finance the leasing portfolio. As such the company has no material exposure to financial risk arising from changes in market interest rates.

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income by £658,000 and finance costs by £10,000.

Currency risk

The company's transactions are all denominated in British Pounds as such the company has no exposure to foreign currency risk.



OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 Notes to the cash flow statement

	2010 £000	2009 £000
Loss from operations	(4,720)	(1,927)
Operating cash flows before movements in working capital	(4,720)	(1,927)
Preference share amortisation	6,206	5,880
Cash generated by operations	1,486	3,953
Group relief paid	(1,107)	(4,099)
Net cash flow from operating activities	379	(146)

16 Related parties

In respect of related party transactions, the outstanding balances receivable/(payable) at 31 December 2010 were as follows

Nature of transaction	Related party	2010 £000	2009 £000
Due from group companies	Immediate parent undertaking	263,295	262,918
Due to group companies	Fellow subsidiary undertaking	(4,185)	(4,186)
Group relief	Immediate parent undertaking	(416)	(1,107)
Cash at bank	Immediate parent undertaking	4	3
Preference shares	Immediate parent undertaking	117,930	111,724

The company received interest of £1,486,000 (2009 £3,955,000) during to the year from group companies. In addition, the company paid interest of £nil (2009. £2,000) during the year to group companies

The company paid group relief of £1,107,000 (2009 £4,099,000) during the year to Bank of Scotland plc

The company incurred a preference share amortisation charge of £6,206,000 (2009 £5,880,000) during the year

17 Post balance sheet events

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. In his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax from 27% to 26% with effect from 1 April 2011. This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011. The additional reduction to 26% is estimated to reduce the deferred tax liability by a further £1,007,000 and will be reflected in the financial statements for the year ended 31 December 2011.

The proposed further reductions in the rate of corporation tax by 1 per cent per annum to 23 per cent from 1 April 2014 are expected to be enacted separately each year. The effect of these further changes upon the company's deferred tax balances cannot be reliably quantified at this stage.

## NOTES TO THE FINANCIAL STATEMENTS

**18 Future developments**

The following accounting standard changes will impact the company in the next financial period

Pronouncement	Nature of change	IASB effective date
Improvements to IFRSs <sup>1</sup> (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
IFRS 9 <i>Financial Instruments Classification and Measurement</i> <sup>1</sup>	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two, fair value and amortised cost. The existing available-for-sale and held-to-maturity categories have been eliminated. Classification will be made on the basis of the objectives of entity's business model for managing the assets and the characteristics of the contractual cash flows.	Annual periods beginning on or after January 2013
IAS24 <i>Related Party Disclosures</i>	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after January 2011

<sup>1</sup> At the date of this report, these pronouncements are awaiting EU endorsement

With the exception of IFRS 9, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements