

**Company Registered No: 03331068**

**PRIORITY SITES LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**



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

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011**

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**PRIORITY SITES LIMITED**

**03331068**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**

**I F Nicol  
J M Rowney  
B I M Turnbull**

**SECRETARY:**

**M Gow**

**REGISTERED OFFICE:**

**135 Bishopsgate  
London  
EC2M 3UR**

**AUDITOR:**

**Deloitte LLP  
Leeds**

**Registered in England and Wales**

**DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2011

**ACTIVITIES AND BUSINESS REVIEW****Activity**

The principal activity of the company continues to be development of property in areas of economic need where demand from local companies and inward investors for industrial and business floorspace has been left unmet

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

**Review of the year*****Business review***

The company continued to achieve lettings and disposals throughout the estate not withstanding the challenging economic climate. The directors are satisfied with the company's operational performance in the year with the fair value movement relating to market factors detailed in note 2. The company's wholly owned subsidiary Priority Sites Investments Limited made a loss before tax of £8,331,603 with a corresponding net deficiency of £3,686,267 for the year ended 31st Dec 2011. The directors have considered the uncertainties prevailing in the real estate market and wider economic climate. The company will be guided by its shareholder moving forward. Post balance sheet events are detailed in note 27 to the financial statements.

***Financial performance***

The company's financial performance is presented on page 8

Revenue decreased by £2,491,396 (2010 £5,576,645) and cost of sales plus administration expenses reduced by £4,440,409 (2010 £3,059,226). After impairment provisions of £13,803,138 (2010 £2,931,857), the loss for the year was £8,418,577 (2010 £5,442,291).

At the end of the year, the balance sheet showed total assets of £36,389,802 (2010 £44,341,235), including development property of £17,244,250 (2010 £33,834,033) representing a decrease in total assets of 17.9% (2010 23.2% decrease) and total negative equity of £2,408,657 (2010 positive £6,009,920).

***Principal risks and uncertainties***

From the 26<sup>th</sup> October 2012, the company is funded by facilities from other members of The Royal Bank of Scotland Group and became a wholly owned subsidiary of The Royal Bank of Scotland Group plc on the 26<sup>th</sup> October 2012.

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 22 to these financial statements.

The company seeks to minimise its exposure to external financial risks other than credit risk, further information on financial risk management policies and exposures is disclosed in note 22.

**DIRECTORS' REPORT (continued)*****Going concern***

The directors having considered the uncertainties prevailing in the real estate market and wider economic climate and having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They have considered the interim announcement of The Royal Bank of Scotland Group plc for the six months ended 30<sup>th</sup> June 2012, approved on 2 August 2012.

**DIRECTORS AND SECRETARY**

The present directors and secretaries, who have served throughout the year except where noted below, are listed on page 2.

From 1 January 2011 to date the following changes have taken place:

	<b>Appointed</b>	<b>Resigned</b>
<b>Directors</b>		
R G Caven		29 March 2011
R G Caven (alternate to J A Irvine)		29 March 2011
A C O'Shaughnessy	29 March 2011	26 October 2012
P A Richie (alternate to J A Irvine)	11 February 2011	1 November 2011
J A Irvine (alternate to P A Richie)	11 February 2011	1 November 2011
J A Irvine (alternate to R G Caven)		29 March 2011
J A Irvine (alternate to A C O'Shaughnessy)	29 March 2011	1 November 2011
P A Richie (alternate to A C O'Shaughnessy)	29 March 2011	26 October 2012
A C O'Shaughnessy (alternate to J A Irvine)	29 March 2011	1 November 2011
A C O'Shaughnessy (alternate to P A Richie)	11 February 2011	26 October 2012
J A Irvine		1 November 2011
G Blacker	1 November 2011	26 October 2012
P A Richie		26 October 2012
A C O'Shaughnessy (alternate to G Blacker)	28 November 2011	26 October 2012
G Blacker (alternate to A C O'Shaughnessy)	15 November 2011	26 October 2012
G Blacker (alternate to P A Richie)	30 November 2011	26 October 2012
P A Richie (alternate to G Blacker)	28 November 2011	26 October 2012
D S Sach		29 October 2012
R H Beattie		29 October 2012
I F Nicol	26 October 2012	
R H Beattie (alternate to J M Rowney)		29 October 2012
J M Rowney (alternate to R H Beattie)		29 October 2012
J M Rowney (alternate to D Sach)		29 October 2012
D S Sach (alternate to J M Rowney)		29 October 2012
<b>Secretary</b>		
M Gow	27 April 2012	
R E Fletcher		27 April 2012

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

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 ("IFRSs") 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, and
- make an assessment of the company's ability to continue as a going concern

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

**DISCLOSURE OF INFORMATION TO AUDITOR**

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

- so far as they are aware there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information

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

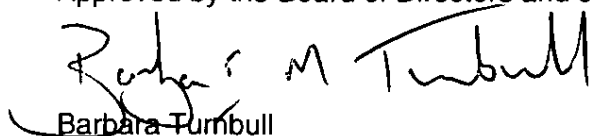
**DIRECTORS' INDEMNITIES**

In terms of section 236 of the Companies Act 2006, DS Sach has been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

**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



Barbara Turnbull

Director

Date 22 February 2013

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRIORITY SITES LIMITED**

We have audited the financial statements of Priority Sites Limited ('the company') for the year ended 31 December 2011 which comprise the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and the related notes 1 to 27. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRIORITY SITES LIMITED**  
**(continued)**

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



David Johnson BA FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor,  
Leeds, UK

22 February 2013



**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2011**

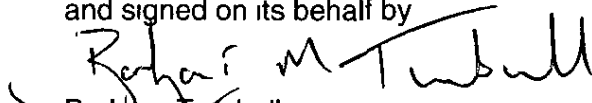
	Notes	2011 £	2010 £
<b>Continuing operations</b>			
Revenue	3	6,541,654	9,033,050
Cost of sales		(4,417,481)	(9,023,420)
<b>Gross profit</b>		2,124,173	9,630
Administrative expenses	4	(1,739,172)	(1,573,642)
Impairment of development property	5	(13,803,138)	(2,931,857)
<b>Operating loss</b>	6	(13,418,137)	(4,495,869)
Income from investments		4,000,000	-
Interest receivable	7	773,418	694,282
Interest payable	8	(1,937,029)	(2,056,706)
<b>Loss before tax</b>		(10,581,748)	(5,858,293)
Tax credit (charge)	9	2,163,171	416,002
<b>Loss and total comprehensive loss for the year</b>		(8,418,577)	(5,442,291)

**BALANCE SHEET**  
as at 31 December 2011

	Notes	2011 £	2010 £
<b>Non-current assets</b>			
Investments in group undertakings and joint ventures	11	1,000	1,000
Amounts due from group undertakings	14	12,202,866	7,960,152
Deferred tax asset	20	1,960,940	11,180
		<u>14,164,806</u>	<u>7,972,332</u>
<b>Current assets</b>			
Development property	12	17,244,250	33,834,033
Trade and other receivables	13	669,983	592,055
Prepayments, accrued income and other assets	15	886,976	892,773
Cash	16	3,423,787	1,050,042
		<u>22,224,996</u>	<u>36,368,903</u>
<b>Total assets</b>		<u>36,389,802</u>	<u>44,341,235</u>
<b>Current liabilities</b>			
Trade and other payables	17	1,054,168	1,164,294
Borrowings	18	19,758,800	1,119,000
Accruals, deferred income and other liabilities	19	1,867,991	858,721
		<u>22,680,959</u>	<u>3,142,015</u>
<b>Non-current liabilities</b>			
Borrowings	18	16,117,500	35,189,300
		<u>16,117,500</u>	<u>35,189,300</u>
<b>Total liabilities</b>		<u>38,798,459</u>	<u>38,331,315</u>
<b>Equity</b>			
Share capital	23	5,812,000	5,812,000
Retained earnings		(8,220,657)	197,920
<b>Total equity</b>		<u>(2,408,657)</u>	<u>6,009,920</u>
<b>Total liabilities and equity</b>		<u>36,389,802</u>	<u>44,341,235</u>

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors on 22 February 2013  
and signed on its behalf by

  
Barbara Turnbull  
Director

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

	<b>Share capital</b> £	<b>Retained earnings</b> £	<b>Total</b> £
<b>At 1 January 2010</b>	5,812,000	5,640,211	11,452,211
Loss for the year	-	(5,442,291)	(5,442,291)
<b>At 31 December 2010</b>	5,812,000	197,920	6,009,920
Loss for the year	-	(8,418,577)	(8,418,577)
<b>At 31 December 2011</b>	5,812,000	(8,220,657)	(2,408,657)

Total comprehensive loss for the year of £8,418,577 (2010 £5,442,291) was wholly attributable to the owners of the company

**CASH FLOW STATEMENT**  
for the year ended 31 December 2011

	2011 £	2010 £
<b>Operating activities</b>		
Loss before taxation	(10,581,748)	(5,858,293)
<b>Adjustments for:</b>		
Impairment losses	13,803,138	2,931,857
Income from investment	(4,000,000)	-
Interest receivable	(773,418)	(694,282)
Interest payable	1,937,029	2,056,706
<b>Operating cash flows before movements in working capital</b>	<u>385,001</u>	<u>(1,564,012)</u>
Net decrease in development property	2,786,645	7,285,004
Net (increase)/decrease in trade and other receivables, prepayments, accrued income and other assets	(276,354)	143,468
Net decrease in trade and other payables	(97,719)	(575,226)
Net decrease/(increase) increase in accruals, deferred income and other liabilities	1,009,270	(185,482)
<b>Net cash from operating activities before tax</b>	<u>3,806,843</u>	<u>5,103,752</u>
Tax received	417,634	87,061
<b>Net cash from operating activities</b>	<u>4,224,477</u>	<u>5,190,813</u>
<b>Cash flows from investing activities</b>		
Movement in amounts due from subsidiary	(4,242,714)	2,428,172
Interest received	751,195	712,309
Interest paid	(1,927,213)	(2,071,789)
Dividends received	4,000,000	-
<b>Net cash flows from investing activities</b>	<u>(1,418,732)</u>	<u>1,068,692</u>
<b>Cash flows from financing activities</b>		
Borrowings advanced	-	2,550,000
Borrowings repaid	(432,000)	(8,312,500)
<b>Net cash flows from financing activities</b>	<u>(432,000)</u>	<u>(5,762,500)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>2,373,745</u>	<u>497,005</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>1,050,042</u>	<u>553,037</u>
<b>Cash and cash equivalents at end of year</b>	<u>3,423,787</u>	<u>1,050,042</u>

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

The company is incorporated in the UK and registered in England and Wales. The company's accounts are presented in accordance with the Companies Act 2006.

**Basis of accounting**

The accounts are prepared on a going concern basis (page 4 of the Directors' Report) and in accordance with International Financial Reporting Standards 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).

**Accounting convention**

The accounts are prepared on the historical cost basis except as noted in the following accounting policies and are presented in accordance with the Companies' Act 2006. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

**Consolidated financial statements**

The financial statements contain information about Priority Sites Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under IAS 27 Consolidated and Separate Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland.

**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) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of discounts, VAT and other sales-related taxes.

Sales of property are recognised when title has passed to the purchaser.

Dividend income is recognised when the paying entity is obliged to make the payment.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

**c) Interest receivable**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****1. Accounting policies (continued)****d) Interest payable**

Interest payable is accounted for on an accrual basis in profit or loss using the effective interest rate method

**e) 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 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

**f) Leasing**

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease

**g) Government grants**

Government grants from the Homes and Communities Agency relating to property are netted off against development assets and released to profit or loss as and when the asset is sold. Grants are received to underpin scheme viability on regeneration projects

**h) Retirement benefit costs**

For defined contribution schemes the amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheets

**i) Investments in group undertakings**

Investments in group undertakings are stated at cost less any impairment

**j) Development assets**

Development assets are defined as inventories in accordance with IAS2, and as such they are stated at the lower of cost and net realisable value. Cost comprises the purchase cost of land and building developments, net of government grants. Net realisable value represents the estimated selling price less all estimated selling costs of completion and costs to be incurred in marketing, selling and distribution

**k) Impairment of development property**

At each reporting date, the company assesses whether there is any indication that its development property is impaired. If any such indication exists, the company estimates the recoverable amount of the asset and the impairment loss if any

**l) Trade and other receivables**

Trade and receivables principally comprise amounts receivable as gap funding in relation to contractor invoices received. The directors consider that the carrying value of trade and other receivables approximates their fair value

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

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value

**n) Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

The directors consider the carrying amount of bank borrowings approximates to their fair value

**o) Trade and other payables**

Trade and other payables principally comprise amounts outstanding for purchases and ongoing costs. The average credit period taken for purchases is 15 days

The directors consider the carrying amount of trade and other payables approximates to their fair value

**p) Loan stock**

Loan stock is recognised initially at fair value net of transaction costs incurred

The directors consider the carrying amount of loan stock approximates to its fair value

**q) 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 classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is 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

**r) Financial liabilities**

On initial recognition financial liabilities are classified into held-for-trading, designated as at fair value through profit or loss, or amortised cost

*Amortised cost*

Other than derivatives, which are recognised and measured at fair value, all financial liabilities are measured at amortised cost using the effective interest method

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

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.

IAS 27 'Separate Financial Statements' which comprises those parts of the existing IAS 27 that dealt with separate financial statements.



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

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.

No other recent IASB announcement is expected to have a material effect on the company's accounting policies or financial statements.

**2. Critical accounting policies and key sources of estimation uncertainty**

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 standard or interpretation, 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. The judgements and assumptions involved in the company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results.

**Development property**

The key assumptions concerning the future, and other sources of estimation and uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are considered to relate to the valuation of development properties.

As set out in note 1, development properties are held on the balance sheet at the lower of cost or net realisable value. This value is determined through internal valuations carried out by qualified professionals. These valuations are regularly reviewed by management and are updated in the event that there are indicators of impairment. RBS plc through its specialist Real Estate vehicle 'West Register' conducted a detailed review of the estate after the year end. The findings resulted in significant impairment of book values. Priority Sites Limited owns assets in economically challenging areas. These particular locations have experienced more acute falls in capital values than the average for the UK commercial

**NOTES TO THE FINANCIAL STATEMENTS (continued)****Development property (continued)**

property sector. This is due in the main to the current economic distress and absence of both bank and institutional funding for such assets. In addition the directors have reviewed the documentation in relation to Capitol Court, Dodworth. Pending legal advice a conservative approach to value has been adopted. This will enable us to determine the marketability and hence value of the asset.

**3. Revenue**

	2011 £	2010 £
Sale of development property	5,338,487	7,539,836
Rental income	1,203,167	1,493,214
	<u>6,541,654</u>	<u>9,033,050</u>

All income arose in the United Kingdom

**4. Administrative expenses**

	2011 £	2010 £
Staff costs	943,869	1,038,800
Legal and professional fees	21,584	62,255
Other	773,719	472,587
	<u>1,739,172</u>	<u>1,573,642</u>

**Staff costs, number of employees and directors' remuneration**

The company has 17 employees (2010: 17), and full disclosure of employee benefit expenses incurred in the period including share based payments and pensions is disclosed at Note 6 below.

The directors did not receive remuneration during the year (2010: £Nil). As they are employees of the shareholder organisations, it is impractical to determine the amount for remuneration which relates to services to this company.

**Retirement benefit costs**

The company operates a defined contribution personal pension plan described as a retirement benefit scheme which is specific to the individual employee and as such the company has no liability for any changes in values, the only impact on the company is payment of the agreed contributions. The company contributes 9% of salary to the employee's individual plan and also matches the employee's contribution up to a maximum of 6%.

**5. Impairment losses**

The following impairment losses were charged to income during the year

	2011 £	2010 £
Impairment losses on development property note 12	13,803,138	2,931,857
	<u>13,803,138</u>	<u>2,931,857</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 6. Operating loss before tax

## Operating loss is stated after charging:

	2011 £	2010 £
Auditor's remuneration – fees payable to the company's auditors for the audit of the company's annual accounts	5,000	5,000
Staff costs – wages and salaries	744,188	842,766
Staff costs – other pension costs	105,827	103,998
Staff costs – social security costs	93,855	92,036
Impairment of development property	13,803,138	2,931,857

## 7. Interest receivable

	2011 £	2010 £
Interest receivable from group undertakings (Note 26)	763,647	692,414
Other interest receivable	9,771	1,868
	<u>773,418</u>	<u>694,282</u>

The company received interest on an unsecured loan from its subsidiary Priority Sites Investments Limited. The rate of interest was fixed at 6.63% (2010 6.63%) for the year ended 31 December 2011.

## 8. Interest payable

	2011 £	2010 £
Interest payable to group undertakings (Note 26)	1,937,029	2,056,706
	<u>1,937,029</u>	<u>2,056,706</u>

## 9. Tax

	2011 £	2010 £
<b>Current taxation:</b>		
UK corporation tax credit for the year	(155,940)	(417,634)
Over provision in respect of prior periods	(57,471)	-
	<u>(213,411)</u>	<u>(417,634)</u>
<b>Deferred taxation:</b>		
(Credit)/charge for the year	(1,946,965)	1,632
Over provision in respect of prior periods	(2,795)	-
	<u>(1,949,760)</u>	<u>1,632</u>
Tax credit for the year	<u>(2,163,171)</u>	<u>(416,002)</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 9. Tax (continued)

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

	2011 £	2010 £
Expected tax credit	(2,803,443)	(1,640,322)
Other non-deductible items	1,158	1,541
Non-taxable items	(1,071,650)	-
Rate difference	117,385	414
Unutilised losses carried forward	1,653,645	1,222,365
Adjustments in respect of prior periods	(60,266)	-
Actual tax credit for the year	<u>(2,163,171)</u>	<u>(416,002)</u>

## 10. Operating lease arrangements

	2011 £	2010 £
Minimum lease payments under operating leases recognised as an expense in the year	<u>110,548</u>	<u>125,477</u>

## 11. Investments in group undertakings

Investments in group undertakings are carried at cost less impairment. Movements during the year were as follows

	2011 £	2010 £
At 1 January	1,000	1,000
At 31 December	<u>1,000</u>	<u>1,000</u>

The subsidiary undertaking of the company is shown below

Name of subsidiary	Country of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Priority Sites Investments Limited	England and Wales	100	100	Property investment company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. Development property

	2011 £	2010 £
At 1 January	33,834,033	44,050,894
Additions	1,630,836	1,738,416
Disposals	(4,417,481)	(9,023,420)
Impairments	(13,803,138)	(2,931,857)
At 31 December	<u>17,244,250</u>	<u>33,834,033</u>

Additions are at cost and are net of £703,391 (2010 £154,231) grants received. The company has pledged all of its development property to secure general banking facilities granted to the company.

## 13. Trade and other receivables

	2011 £	2010 £
Trade receivables	594,713	72,247
Grants receivable	75,270	294,808
Other receivables	-	225,000
	<u>669,983</u>	<u>592,055</u>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

## 14. Amounts due from group undertakings

	2011 £	2010 £
Balance as at 1 January 2011	7,960,152	10,388,323
Movement in the year	<u>4,242,714</u>	<u>(2,428,171)</u>
Balance as at 31 December 2011	<u>12,202,866</u>	<u>7,960,152</u>

The above loan has been given to the company's 100% subsidiary Priority Sites Investments Limited. The intra-group loan is unsecured. The rate of interest was fixed at a rate of 6.63% (2010 6.63%) for the year ended 31 December 2011. The amounts due from the subsidiary undertaking are repayable only at such time that this is considered affordable by the directors of Priority Sites Investments Limited. The company has confirmed that it will not seek repayment of the loan within 12 months of the balance sheet date.

The directors consider that the carrying amount of amounts due from group undertakings approximates their fair value.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 15. Prepayments, accrued income and other assets

	2011	2010
	£	£
Prepayments	229,323	67,001
Accrued income	444,242	408,138
Corporation tax recoverable (note 26)	213,411	417,634
	<u>886,976</u>	<u>892,773</u>

The directors consider that the carrying amount of prepayments, accrued income and other assets approximates to their fair value

## 16. Cash and cash equivalents

	2011	2010
	£	£
Cash and bank balances	3,423,787	1,050,042
Cash and cash equivalents per cash flow statement	<u>3,423,787</u>	<u>1,050,042</u>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The directors consider that carrying value of these assets approximates to their fair value.

## 17. Trade and other payables

	2011	2010
	£	£
Trade payables	730,835	983,559
Value added tax (note 26)	323,333	180,735
	<u>1,054,168</u>	<u>1,164,294</u>

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 15 days.

The directors consider that the carrying value of trade and other payables approximates to their fair value.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 18. Borrowings

	2011 £	2010 £
Development loans repayable to The Royal Bank of Scotland plc	16,875,500	17,307,500
Loan stock held by The Royal Bank of Scotland plc	8,120,000	8,120,000
Loan stock held by Homes and Communities Agency	10,880,800	10,880,800
	<u>35,876,300</u>	<u>36,308,300</u>
Current	19,758,800	1,119,000
Non-current	16,117,500	35,189,300
	<u>35,876,300</u>	<u>36,308,300</u>

The rate of interest was at fixed rates between 2.5535% and 6.63%. Loans are secured by fixed and floating charges on the assets of the company. The company has a development loan facility with The Royal Bank of Scotland plc for a maximum drawing of £32,000,000. The maximum amount drawn during the year was £18,207,500.

## 19. Accruals, deferred income and other liabilities

	2011 £	2010 £
Accruals	1,292,851	641,021
Deferred income	575,140	217,700
	<u>1,867,991</u>	<u>858,721</u>

The directors consider that the carrying value of accruals and deferred income approximates to their fair value.

## 20. Deferred tax

The following are the major tax assets/liabilities recognised by the company, and the movements thereon.

	Capital allowances £	Losses c/f £	Total £
At 1 January 2010	12,812	-	12,812
Credit to income	(1,632)	-	(1,632)
At 31 December 2010	11,180	-	11,180
Charge to income	1,760	1,948,000	1,949,760
At 31 December 2011	12,940	1,948,000	1,960,940

The Finance Act 2011 has reduced the corporation tax rate from 27% to 25% with effect from 1 April 2012.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 21. Financial instruments

## Categories of financial instrument

In accordance with the categories of financial instruments in IAS 39 "Financial Instruments, Recognition and Measurement", all amounts receivable from banks and group undertakings are categorised as loans and receivables and all amounts payable to banks and group undertakings are categorised as amortised cost

	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
<b>2011</b>				
<b>Assets</b>				
Investment in group undertakings	-	-	1,000	1,000
Amounts due from group undertakings	12,202,866	-	-	12,202,866
Deferred tax asset	-	-	1,960,940	1,960,940
Development property	-	-	17,244,250	17,244,250
Trade and other receivables	669,983	-	-	669,983
Prepayments, accrued income and other assets	886,976	-	-	886,976
Cash	-	3,423,787	-	3,423,787
	<u>13,759,825</u>	<u>3,423,787</u>	<u>19,206,190</u>	<u>36,389,802</u>
<b>Liabilities</b>				
Trade and other payables	-	(1,054,168)	-	(1,054,168)
Borrowings	-	(35,876,300)	-	(35,876,300)
Accruals and deferred income	-	-	(1,867,991)	(1,867,991)
	<u>-</u>	<u>(36,930,468)</u>	<u>(1,867,991)</u>	<u>(38,798,459)</u>
<b>Equity</b>				<u>(2,408,657)</u>
	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
<b>2010</b>				
<b>Assets</b>				
Investment in group undertakings	-	-	1,000	1,000
Amounts due from group undertakings	7,960,152	-	-	7,960,152
Deferred tax asset	-	-	11,180	11,180
Development property	-	-	33,834,033	33,834,033
Trade and other receivables	592,055	-	-	592,055
Prepayments, accrued income and other assets	475,139	-	417,634	892,773
Cash	-	1,050,042	-	1,050,042
	<u>9,027,346</u>	<u>1,050,042</u>	<u>34,263,847</u>	<u>44,341,235</u>
<b>Liabilities</b>				
Trade and other payables	-	(1,164,294)	-	(1,164,294)
Borrowings	-	(36,308,300)	-	(36,308,300)
Accruals and deferred income	-	-	(858,721)	(858,721)
	<u>-</u>	<u>(37,472,594)</u>	<u>(858,721)</u>	<u>(38,331,315)</u>
<b>Equity</b>				<u>6,009,920</u>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 21. Financial instruments (continued)

## Fair value

The following table shows the carrying value and the fair value of financial instruments carried on the balance sheet where financial instruments are not carried at fair value on the balance sheet. Where the financial instruments are of short maturity, the carrying value is equal to the fair value.

The fair value of loans and receivables is estimated by discounting expected future cash flows using current interest rates and making adjustments for credit.

	2011 Carrying value £	2011 Fair value £	2010 Carrying value £	2010 Fair value £
<b>Financial assets</b>				
Trade and other receivables	669,983	669,983	592,055	592,055
Prepayments, accrued income and other assets	886,976	886,976	892,773	892,773
Cash	3,423,787	3,423,787	1,050,042	1,050,042
<b>Financial liabilities</b>				
Trade and other payables	(1,054,168)	(1,054,168)	(1,164,294)	(1,164,294)
Borrowings	(35,876,300)	(35,173,252)	(36,308,300)	(36,308,300)

The amounts due from the group undertaking with a carrying value of £12,202,866 are repayable only at such a time that this is considered affordable by the directors of Priority Sites Investments Limited. The company has confirmed that it will not seek repayment of the loan within 12 months of the balance sheet date. As such the timings of cash flows cannot be calculated, therefore the loan has been excluded from the table shown above.

## Credit quality

The probability of default on the company's financial assets is considered as low as the majority of financial assets are amounts due from group undertakings.

## Financial Liabilities

The following table shows by contractual maturity the undiscounted cash flows payable from the balance sheet date including future interest payments.

2011	0 - 3 months £	3 - 12 months £	1 - 3 years £	3 - 5 years £	5-10 years £
Trade and other payables	(1,054,168)	-	-	-	-
Accruals and deferred income	(1,867,991)	-	-	-	-
Borrowings	(652,988)	(20,883,786)	(4,822,910)	(4,590,605)	(9,056,733)
	<u>(3,575,147)</u>	<u>(20,883,786)</u>	<u>(4,822,910)</u>	<u>(4,590,605)</u>	<u>(9,056,733)</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 21. Financial instruments (continued)

2010	0 - 3 months £	3 - 12 months £	1 - 3 years £	3 - 5 years £	5-10 years £
Trade and other payables	(1,164,294)	-	-	-	-
Accruals and deferred income	(858,721)	-	-	-	-
Borrowings	(754,850)	(2,244,578)	(25,875,937)	(3,538,282)	(11,961,217)
	<u>(2,777,865)</u>	<u>(2,244,578)</u>	<u>(25,875,937)</u>	<u>(3,538,282)</u>	<u>(11,961,217)</u>

## 22. Financial risk management

The company has financial risk exposures. This section summarises these risks and the way the company manages them.

## Interest rate risk

Structural interest rate risk arises where assets and liabilities have different re-pricing maturities. There has been no change to the company's exposure to market risks or the manner in which it manages or measures the risk.

The company manages interest rate risk by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches.

The following tables indicate financial assets and liabilities that are exposed to interest rate risk together with the corresponding range of applicable interest rates.

2011	Interest – bearing		Non interest-bearing		Total £
	Within one year £	After one year £	Within One year £	After one year £	
<b>Financial assets</b>					
Amounts due from group					
Undertakings	-	12,202,866	-	-	12,202,866
Cash	3,413,787	-	10,000	-	3,423,787
	<u>3,413,787</u>	<u>12,202,866</u>	<u>10,000</u>	<u>-</u>	<u>15,626,653</u>
<b>Financial liabilities</b>					
Borrowings	(19,758,800)	(16,117,500)	-	-	(35,876,300)
	<u>(19,758,800)</u>	<u>(16,117,500)</u>	<u>-</u>	<u>-</u>	<u>(35,876,300)</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 22. Financial risk management (continued)

2010	Interest – bearing		Non interest-bearing		Total £
	Within one year £	After one year £	Within one year £	After one year £	
<b>Financial assets</b>					
Amounts due from group					
Undertakings	-	7,960,152	-	-	7,960,152
Cash	1,040,042	-	10,000	-	1,050,042
	1,040,042	7,960,152	10,000	-	9,010,194
<b>Financial liabilities</b>					
Borrowings	(1,119,000)	(35,189,300)	-	-	(36,308,300)
	(1,119,000)	(35,189,300)	-	-	(36,308,300)

Interest rate	% interest rate range	
	2011	2010
Amounts due from group undertakings (note 14)	6 63	6 63
Loan stock (note 18)	6 63	6 63
Development loan fixed (note 18)	4 22	4 22
Development loan variable (note 18)	2 5570-2 8817	2 5035-2 5535

The table below shows the weighted average interest rates paid for each class of borrowings exposed to interest rate risk

	2011 %	2010 %
Development loan (note 18)	3 52	3 35

**Currency risk**

The company has no currency risk as all transactions and balances are denominated in sterling

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company

The key principles of the company's Credit Risk policy are set out below

- For sales of property, customers pay on completion resulting in no credit risk
- For leased properties, prospective tenants are vetted for their credit worthiness using external agencies, requests are made for the tenants to provide their last three years financial statements and where appropriate rent deposits of three to six months are taken on completion
- Credit risk is monitored by the Board on a monthly basis

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 22. Financial risk management (continued)

## Liquidity risk

Liquidity risk is the potential that obligations cannot be met as they fall due as a consequence of having a timing mismatch. It is mitigated by the routine monitoring of key management information.

Management focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations. It is undertaken within limits and other policy parameters set by Group Asset and Liability Management Committee (GALCO).

## Market risk

Market risk encompasses any adverse movement in the value of financial instruments as a consequence of market movements such as interest rates, credit spreads, foreign exchange rates, equity prices and property valuations. The principal market risks to which the company is exposed are interest rate and property valuations.

Priority Sites Limited and its subsidiaries own assets in economically challenging areas. These particular locations have experienced more acute falls in capital values than the average for the UK commercial property sector. This is due in the main to the current economic distress and absence of both bank and institutional funding for such assets.

The following sensitivity analysis has been determined using the company's assets and liabilities as at the balance sheet date and by reference to a reasonably foreseeable movement in market interest rates expected during the company's next financial reporting period.

If interest rates for the current year had been 50 basis points lower and this movement applied to the assets and liabilities as at the balance sheet date, the pre-tax profit for the year ended 31 December 2011 would have been £38,870 higher (2010: £64,984 higher).

This would normally have resulted from lower interest income on variable rate assets and lower financial costs in respect of its loans.

The inverse is equally true for the current year if interest rates had been 50 basis points higher.

## 23. Share capital

	2011	2010
	£	£
<b>Authorised:</b>		
2,964,120 'A' ordinary shares of £1	2,964,120	2,964,120
2,847,880 'B' ordinary shares of £1	2,847,880	2,847,880
	<u>5,812,000</u>	<u>5,812,000</u>

## Allotted, called up and fully paid:

## Equity shares

2,964,120 'A' ordinary shares of £1	2,964,120	2,964,120
2,847,880 'B' ordinary shares of £1	2,847,880	2,847,880
	<u>5,812,000</u>	<u>5,812,000</u>

The A ordinary shares, representing 51% of the company's ordinary share capital are held by The Royal Bank of Scotland plc. The B ordinary shares are held by the Homes and Communities Agency. The A and B shares rank pari passu in all respects.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

On the 28 November 2012, the 2,964,120 existing A Ordinary Shares of £1 each and 2,847,880 B Ordinary Shares of £1 each were reclassified into 5,812,000 Ordinary Shares of £1 each

**24. 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.

**25. Commitments and contingent liabilities**

The company's commitments under non-cancellable operating leases are as follows:

<b>Operating Leases</b>	<b>2011</b>	<b>2010</b>
Leases expiring	£	£
Within one year	50,750	50,750
In the second to fifth years inclusive	203,000	203,000
After five years	44,406	99,385
<b>Total</b>	<b>298,156</b>	<b>353,135</b>

Operating lease payments represent rentals payable by the company for one of its operational office properties. The lease is a fifteen-year lease with rentals fixed for an average term of five years. The company has outstanding commitments for cancellable operating leases of £61,813 (2010: £128,436).

<b>Capital expenditure</b>	<b>2011</b>	<b>2010</b>
	£	£
Commitments for the acquisition of property, plant and Equipment	-	1,407,093

**26. Related parties**

At the Balance Sheet date the company is 51% owned by The Royal Bank of Scotland plc and 49% owned by the Homes and Communities Agency, the UK Government's national housing and regeneration agency. The ownership has altered post year end. This is referred to in note 27.

**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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 26. Related parties (continued)

**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. Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland plc, Gogarburn, Edinburgh, EH12 1HQ.

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, Edinburgh, EH12 1HQ.

Transactions with other group companies in the period 1 January to 31 December comprised

	2011 £	2010 £
<b>Interest receivable:</b>		
Loan to Priority Sites Investments Limited (note 7)	763,647	692,414
<b>Interest payable:</b>		
Loan stock held by The Royal Bank of Scotland plc	(538,629)	(541,592)
Loan stock held by Homes and Communities Agency	(721,396)	(721,396)
Development loan from The Royal Bank of Scotland plc	(677,004)	(793,718)
Interest payable (note 8)	(1,937,029)	(2,056,706)

As at 31 December balances with related parties (excluding UK Government bodies) were

	2011 £	2010 £
<b>Payable</b>		
Loan stock from the Royal Bank of Scotland plc (note 18)	(8,120,000)	(8,120,000)
Loan stock from the Homes and Communities Agency (note 18)	(10,880,800)	(10,880,800)
Development loan from the Royal Bank of Scotland (note 18)	(16,875,500)	(17,307,500)
<b>Receivable</b>		
Loan to Priority Sites Investments Limited (note 14)	12,202,866	7,960,152

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 26. Related parties (continued)

Transactions with UK Government bodies

During the year the Company received Corporation Tax of £417,634 (2010 £87,061) from Her Majesty's Revenue & Customs (HMRC), a UK Government body

As at the 31 December balances with UK Government and affiliated bodies were

	2011	2010
	£	£
<b>Receivable</b>		
Central Government (note 15)	213,411	417,634
<b>Payable</b>		
Central Government (note 17)	(323,333)	(180,735)
	<u>(109,922)</u>	<u>236,899</u>

## 27. Post balance sheet events

On the 26<sup>th</sup> October 2012 the 2,847,880 B Ordinary Shares of £1 each held by the Homes and Communities Agency ("HCA") were acquired by The Royal Bank of Scotland plc ("RBS plc") for a consideration of £1. As part of the acquisition agreement the HCA waived their right to the loan stock it held totalling £10,880,000. During 2012 RBS plc began formal discussions with its JV partner the HCA to complete a review of the underlying business. As part of this exercise the Group conducted a comprehensive business review with the aid of its West Register real estate team. The outcome of these protracted negotiations resulted in RBS plc purchasing the remaining 49% share of Priority Sites Limited. Post completion of the transaction there will be immediate operational changes. Any resulting effects from such changes will be reflected in the financial statements for the year ended 31<sup>st</sup> December 2012. Priority Sites Limited own assets in economically challenging areas. These particular locations have experienced further more acute falls in capital values than the average for the UK commercial property sector in 2012. This is due to the continuing difficult economic conditions and absence of both bank and institutional funding for such assets. As a result the directors anticipate further falls in property value in the order of 5 - 10% for 2012.

As of the 26<sup>th</sup> October 2012 the Company has no employees