Company Registered No: 04216794

RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Year ended 31 December 2011

Group Secretariat
The Royal Bank of Scotland Group plc
Gogarburn
P.O Box 1000
Edinburgh
EH12 IHQ

RBS SPECIALISED PROPERTY INVESTMENTS LIMITED **04216794**

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RBS SPECIALISED PROPERTY INVESTMENTS LIMITED **04216794**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS	A S Devine R D Hook P D J Sullivan
SECRETARY·	RBS Secretarial Services Limited
REGISTERED OFFICE	135 Bishopsgate London EC2M 3UR
AUDITOR·	Deloitte LLP Hill House 1 Little New Street London EC4A 3TR

Registered in England and Wales

DIRECTORS' REPORT

The directors of RBS Specialised Property Investments Limited ("the Company") present their report and the audited financial statements for the year ended 31 December 2011

ACTIVITIES AND BUSINESS REVIEW

Principal activity
The principal activity of the Company continues to be investment in companies that own properties The directors do not anticipate any material change in either the type or level of activities of the Company

The Company is a subsidiary of The Royal Bank of Scotland Group plc ("the Group") which provides the Company with direction and access to all 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 Group review these matters on a Group basis Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's website at rbs com

Business review
The directors are satisfied with the Company's performance in the year, given the current conditions in the real estate market The Company will be guided by its ultimate parent company in seeking further opportunities for growth

Financial performance
The Company's financial performance is presented in the Income Statement on page 6 The loss before taxation for the year was £1,878,086 (2010 £9,871,695) The retained loss for the year was £3,119,179 (2010 £11,528,634) The main driver in the improved performance in 2011 compared to 2010 is significant reduction in the impairment of investments in subsidiaries in 2011

At the end of the year total assets were £25,900,064 (2010 £26,260,444)

Dividends
The directors do not recommend the payment of a dividend (2010 £nil)

Principal risks and uncertainties
The Company is funded by facilities from The Royal Bank of Scotland Plc

The Company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 14 to these financial statements

The Company seeks to minimise its exposure to external financial risks other than equity further information on financial risk management policies and exposures is disclosed in note 14 and 16

Going concern
The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis They considered the accounts of The Royal Bank of Scotland Group plc for the year ended 31 December 2011, approved on 22 February 2012, which were prepared on a going concern basis

Directors and Secretary
The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1

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

Directors	Appointed	Resigned
D A Duke	-	15 August 2011
R D Hook	16 August 2011	-

DIRECTORS' REPORT (continued)

Directors and Secretary (continued)

Secretary

R E Fletcher	-	27 April 2012
RBS Secretarial Services Limited	27 April 2012	-

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 (IFRS) as adopted by the European Union (EU) 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 for the financial year of the Company In preparing these financial statements, under International Accounting Standard 1, the directors are required to

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

- 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

AUDITOR

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

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

P D J Sullivan
Director
Date 29 / 6 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

We have audited the financial statements of RBS Specialised Property Investments Limited ('the Company') for the year ended 31 December 2011 which comprise the Income Statement, Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 19. 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 Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's 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 RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

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

S. Charles Hardy

Simon Hardy, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
Date 3 July 2012

INCOME STATEMENT
for the year ended 31 December 2011

Continuing operations	Notes	2011 £	2010 £
Other income	3	**4,400,000**	5,530,765
Administrative expenses	4	**(35,134)**	(81,540)
Gain on sale of investments		**569,761**	-
Impairment of investment in subsidiary	15	**-**	(11,133,162)
Impairment of available-for-sale investments	15	**(6,918,598)**	(4,268,840)
Operating loss before tax		**(1,983,971)**	(9,952,777)
Interest receivable and similar income	5	**117,412**	115,760
Interest payable and similar charges	6	**(534,115)**	(515,223)
Gains on foreign exchange		**522,588**	480,545
Loss before tax		**(1,878,086)**	(9,871,695)
Tax charge	7	**(1,241,093)**	(1,656,939)
Loss for the year		**(3,119,179)**	(11,528,634)

The accompanying notes form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	2011 £	2010 £
Loss for the year	**(3,119,179)**	(11,528,634)
Other comprehensive income/(loss):		
Fair value adjustment for available-for-sale financial assets	**6,778,610**	12,751
Foreign exchange on available-for-sale assets	**(3,541,515)**	(518,582)
Other comprehensive income/(loss) before tax	**3,237,095**	(505,831)
Tax credit/(charge)	**142,921**	(32,112)
Other comprehensive income/(loss) after tax	**3,380,016**	(537,943)
Total comprehensive income/(loss) for the year	**260,837**	(12,066,577)

The accompanying notes form an integral part of these financial statements

RBS SPECIALISED PROPERTY INVESTMENTS LIMITED **04216794**

BALANCE SHEET
As at 31 December 2011

	Notes	2011 £	2010 £
Assets			
Non-current assets			
Investments in subsidiaries	8	**1**	211,820
Available-for-sale investments	9	**5,683,806**	9,294,079
Loans and receivables	10	**2,258,604**	2,328,214
		7,942,411	11,834,113
Current assets			
Trade and other receivables	11	**1,382,441**	1,364,383
Cash at bank		**16,575,212**	13,061,948
		17,957,653	14,426,331
Total assets		**25,900,064**	26,260,444
Current liabilities			
Amounts due to Group undertakings	12	**18,316**	23,119
Current taxation		**1,241,093**	1,644,075
		1,259,409	1,667,194
Non-current liabilities			
Amounts due to Group undertakings	12	**51,325,808**	51,396,319
Deferred taxation	13	**33,715**	176,636
		51,359,523	51,572,955
Total liabilities		**52,618,932**	53,240,149
Equity			
Share capital	17	**7,199,641**	7,199,641
Revaluation reserve		**(135,028)**	(3,515,044)
Retained earnings		**(33,783,481)**	(30,664,302)
Total equity		**(26,718,868)**	(26,979,705)
Total liabilities and equity		**25,900,064**	26,260,444

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 29 6 2012 and signed on its behalf by

P D J Sullivan
Director

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

	Share capital £	Revaluation reserve £	Retained earnings	Total £
At 1 January 2010	7,199,641	(2,977,101)	(30,268,830)	(26,046,290)
Loss for the year	-	-	(11,528,634)	(11,528,634)
Increase in fair value of available-for-sale equity investments	-	12,751	-	12,751
Foreign exchange on available-for-sale investments	-	(518,582)	-	(518,582)
Deferred tax liability arising on revaluation of available-for-sale investments	-	(32,112)	-	(32,112)
Capital contribution from parent	-	-	11,133,162	11,133,162
At 31 December 2010	7,199,641	(3,515,044)	(30,664,302)	(26,979,705)
Loss for the year	-	-	**(3,119,179)**	**(3,119,179)**
Increase in fair value of available-for-sale equity investments	-	**6,778,610**	-	**6,778,610**
Foreign exchange on available-for-sale investments	-	**(3,541,515)**	-	**(3,541,515)**
Reduction in deferred tax liability arising on revaluation of available-for-sale investments	-	**142,921**	-	**142,921**
At 31 December 2011	**7,199,641**	**(135,028)**	**(33,783,481)**	**(26,718,868)**

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENT
For the year ended 31 December 2011

	Note	2011 £	2010 £
Operating activities			
Operating loss for the year before tax		**(1,983,971)**	(9,952,777)
Adjustments for			
Gain on sale of investments		**(569,761)**	-
Foreign exchange loss on investments		**-**	54,562
Foreign exchange loss on loan receivable		**69,610**	69,372
Impairment of investment in subsidiary		**-**	11,133,162
Impairment of available-for-sale investments	15	**6,918,598**	4,268,840
Operating cash flows before movements in working capital		**4,434,476**	5,573,159
Movement in trade and other receivables		**(18,058)**	(1,215,760)
Total movement in working capital		**(18,058)**	(1,215,760)
Net cash from operating activities before tax		**4,416,418**	4,357,399
Interest paid		**(534,115)**	(515,223)
Group relief		**(1,644,075)**	(839,478)
Net cash flows from operating activities		**2,238,228**	3,002,698
Cash flows from investing activities			
Interest received		**117,412**	115,760
Purchase of shares in subsidiary		**-**	(11,133,162)
Acquisition of available-for-sale investments		**(354,297)**	(914,648)
Proceeds on disposal of available-for-sale investments		**741,870**	1,256,639
Proceeds on disposal of investment in subsidiary		**322,777**	-
Net cash flows from investing activities		**827,762**	(10,675,411)
Cash flows from financing activities			
Capital contribution from parent		**-**	11,133,162
Movement in borrowings		**(75,314)**	507,874
Net cash flows from financing activities		**(75,314)**	11,641,036
Net increase/(decrease) in cash and cash equivalents		**2,990,676**	3,968,323
Cash and cash equivalents at 1 January		**13,061,948**	8,613,080
Effect of foreign exchange on cash and cash equivalents		**522,588**	480,545
Cash and cash equivalents at 31 December		**16,575,212**	13,061,948

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Presentation of financial statements

The financial statements are prepared on a going concern basis, as disclosed in the Director's Report on page 2, and in accordance with IFRS issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS)

The financial statements are prepared on the historical cost basis except for available-for-sale financial assets that are stated at their fair value

The Company's financial statements are presented in Sterling which is the functional currency of the Company

The Company is incorporated in the UK and registered in England and Wales The Company's financial statements are presented in accordance with the Companies Act 2006

Adoption of new and revised standards

There are a number of changes to IFRS that were effective from 1 January 2011 They have had no material effect on the Company's financial statements for the year 31 December 2011

b) Consolidated financial statements

The financial statements contain information about the Company 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 Group, a public company registered in Scotland

c) Foreign currencies

Transactions in foreign currencies are translated into Sterling at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date

The fair value of available-for-sale assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date Other foreign exchange gains and losses are recognised in other comprehensive income

d) Revenue recognition

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

Gains and losses on financial assets that are designated as at fair value through profit or loss are recognised in profit or loss as they arise

1. Accounting policies (continued)

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 not recognised on temporary differences that arise from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date

f) Investment in Group undertakings

Investments in Group undertakings are stated at cost less any accumulated impairment losses

g) Financial assets

On initial recognition, financial assets are classified into loans and receivables or available-for-sale financial assets

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss Loans and receivables are initially recognised at fair value plus directly related transaction costs They are subsequently measured at amortised cost using the effective interest method (see accounting policy d) less any impairment losses

Available-for-sale

Financial assets that are not classified as held-to-maturity, held-for-trading, designated as at fair value through profit or loss, or loans and receivables, are classified as available-for-sale Financial assets can be designated as available-for-sale on initial recognition Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs They are subsequently measured at fair value Impairment losses and exchange differences resulting from retranslating the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in profit or loss together with interest calculated using the effective interest method (see accounting policy d) Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in profit or loss

Fair value for a net open position in a financial asset that is quoted in an active market is the current bid price times the number of units of the instrument held Fair values for financial assets not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial assets

h) 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 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

1. Accounting policies (continued)

i) Financial liabilities
On initial recognition all financial liabilities are classified at amortised cost

Amortised cost
All financial liabilities are measured at amortised cost using the effective interest method (see accounting policy d)

j) 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

k) Accounting developments
The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments Recognition and Measurement' 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 the principal amount outstanding 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 the classification and measurement of liabilities It is not markedly different from IAS 39 except for liabilities measured at fair value where the movement is due to changes in credit rating of the preparer it is recognised not in profit or loss but in other comprehensive income

The standard is effective for annual periods beginning on or after 1 January 2015, early application is permitted

This standard makes major changes to the framework for the classification and measurement of financial assets and will have a significant effect on the Company's financial statements The changes relating to the classification and measurement of liabilities carried at fair value will have a less significant effect on the Company The Company is assessing these impacts which are likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project

The IASB issued an amendment to IAS 12 'Income Taxes' in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability The amendment and consequential withdrawal of SIC 21 'Deferred Tax Recovery of Underlying Assets', effective for annual periods beginning on or after 1 January 2012, is not expected to have a material effect on the Company

In May 2011, the IASB issued six new or revised standards

IFRS 10 Consolidated Financial Statements which replaces SIC-12 Consolidation - Special Purpose Entities and the consolidation elements of the existing IAS 27 Consolidated and Separate Financial Statements The new standard adopts a single definition of control a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity

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

IFRS 11 Joint Arrangements which supersedes IAS 31 Interests in Joint Ventures IFRS 11 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

1. Accounting policies (continued)

k) Accounting developments (continued)

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

These standards are effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted The Company is reviewing the standards to determine their effect on the Company's financial reporting

In June 2011, the IASB issued amendments to two standards

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income that require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification

Amendments IAS 19 Employee Benefits - these require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach', interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate, and all past service costs to be recognised immediately when a scheme is curtailed or amended

These amendments are effective for annual periods beginning on or after 1 July 2012 and 1 January 2013 respectively Earlier application is permitted The Company is reviewing the amendments to determine their effect on the Company's financial reporting

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

Fair value - financial instruments
Financial instruments classified as available-for-sale are recognised in the Financial Statements at fair value Unrealised gains and losses on available-for sale financial assets are recognised directly in equity unless an impairment loss is recognised

Investments in subsidiaries
The Company has reviewed the carrying value of investments in subsidiaries and has impaired its investments based on the discounted future cash flows of those subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Other income

	2011 £	2010 £
Debenture fee income	**4,400,000**	5,530,765

4. Administrative expenses

	2011 £	2010 £
Bank charges	**30**	47,964
Management fees	**35,104**	33,576
	35,134	81,540

The auditor's remuneration for statutory audit work for the Company of £7,000 (2010 £5,000) was borne by The Royal Bank of Scotland plc Remuneration paid to the auditor for non-audit work for the Company was £nil (2010 £nil)

There were no emoluments paid to the directors by the Company

5 Interest receivable and similar income

	2011 £	2010 £
Interest receivable on loans and receivables	**117,412**	115,760

6. Interest payable and similar income

	2011 £	2010 £
Interest on loan from parent company	**531,392**	515,223
Other interest	**2,733**	-
	534,115	515,223

7. Taxation

	2011 £	2010 £
Current taxation:		
UK corporation tax charge for the year	**1,241,093**	1,644,075
Under provision in respect of prior periods	-	12,864
Tax charge for the year	**1,241,093**	1,656,939

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Taxation (continued)

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 26 5% (2010 28%) as follows

	2011 £	2010 £
Operating loss before tax	**(1,878,086)**	(9,871,695)
Expected tax charge	**(497,564)**	(2,764,075)
Foreign exchange gain on capital repayment of shareholders loan	**44,257**	80,312
Foreign exchange adjustment on restating subsidiary	-	15,278
Gain on sale of investments	**(150,948)**	-
Gain on sale of investment in subsidiaries	**12,393**	-
Impairment loss on investment (note 9)	**1,832,955**	1,195,275
Impairment of investment in subsidiary (note 8)	-	3,117,285
Over provision in prior periods	-	12,864
Actual tax charge for the year	**1,241,093**	1,656,939

In the Budget on 22 June 2010, the UK Government proposed, amongst other things, to reduce the UK Corporation Tax rate of 28% in four annual decrements of 1% with effect from 1 April 2011 and to reduce certain rates of capital allowances Two additional 1% decrements were announced by the UK Government in subsequent Budgets on 23 March 2011 and 21 March 2012 The first 1% decrement was enacted on 27 July 2010, the second on 29 March 2011, the third, together with the capital allowance rate changes, on 5 July 2011 and the fourth on 26 March 2012 bringing the UK Corporation Tax Rate to 24% with effect from 1 April 2012 Existing temporary differences may therefore unwind in periods subject to these reduced tax rates Accordingly, the closing deferred tax assets and liabilities have been calculated at the rate of 25 25%

8. Investment in subsidiaries

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

Investment in subsidiaries	2011 £	2010 £
At 1 January	**211,820**	266,382
Additions	-	11,133,162
Disposals	**(211,819)**	-
Impairment	-	(11,133,162)
Foreign exchange adjustments	-	(54,562)
At 31 December	**1**	211,820

Details of the investments in which the Company holds more than the 10% equity are as follows

Name of company	**Nature of business**	**Country of incorporation**	**Class of share**	**Total equity**
Primemodern Limited	Investment holding company	Great Britain	Ordinary	100%

9 Available for sale investments

	2011 £	2010 £
At 1 January	**9,294,079**	14,410,741
Additions	**354,297**	914,648
Capital repayment	**(283,069)**	(1,256,639)
Fair value adjustment	**6,778,612**	12,751
Foreign exchange adjustments	**(3,541,515)**	(518,582)
Impairment loss on investment	**(6,918,598)**	(4,268,840)
At 31 December	**5,683,806**	9,294,079

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Available for sale investments (continued)

The investments above are all denominated in Euros and have been translated at the ruling spot rate at the year end The investments are all unlisted equity securities

Details of the investments in which the Company holds more than the 10% equity are as follows

Name of company	Nature of business	Country of incorporation	Class of share	Total equity 2011	Total equity 2010
CVI Global Value Fund Cayman LP	Property LP	Cayman	Ordinary	19 90%	19 90%
Drago Real Estate Partners Limited	Property Company	Guernsey	Ordinary	17 40%	17 40%
Parque las Canas SL	Property Company	Spain	Ordinary	19 99%	19 99%
Modillion Limited	Property Company	Ireland	Ordinary	19 90%	19 90%

10. Loans and receivables

	2011 £	2010 £
At 1 January	**2,328,214**	2,397,586
Foreign exchange translation	**(69,610)**	(69,372)
At 31 December	**2,258,604**	2,328,214

The loan is denominated in Euros and earns interest at 5% per annum The interest is received quarterly The loan matures on 31 December 2013

The fair value of the loan receivable is approximate to its carrying amount in the balance sheet

11. Trade and other receivables

	2011 £	2010 £
Interest receivable	**282,441**	264,383
Debenture fee income	**1,100,000**	1,100,000
	1,382,441	1,364,383

12 Amounts due to Group undertakings

	2011 £	2010 £
Loan from ultimate parent company	**51,325,808**	51,396,319
Management fee due to ultimate parent company	**18,316**	23,119
	51,344,124	51,419,438

The Company's investments are funded by loans from its parent entity which are included as a liability and amounted to £51,325,808 at 31 December 2011 (2009 £51,396,319) These loans have been issued in Euros and are translated at the spot rate at the year end The Euro denominated loans are 3 month rolling loans and the interest rate is fixed on the BBA Euribor rate at the date the issued or rolled over The effective interest rates of the loans vary between 0 57% and 1 46% (2010 between 0 39% and 1 26%) The carrying value of the loan is approximate to its fair value

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Deferred tax

The following is the deferred tax liability recognised by the Company, and the movements thereon

	2011 £	2010 £
At 1 January	**176,636**	144,524
Fair value adjustment of available-for-sale investments taken to reserves	**(142,921)**	32,112
At 31 December	**33,715**	176,636

14. Financial instruments

The following tables analyse the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 "Financial Instruments, Recognition and Measurement" Assets and liabilities outside the scope of IAS 39 are shown separately

2011	Available-for-sale £	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
Assets					
Investments in subsidiaries	-	-	-	1	1
Available-for-sale assets	5,683,806	-	-	-	5,683,806
Loans and receivables	-	2,258,604	-	-	2,258,604
Trade and other receivables	-	1,382,441	-	-	1,382,441
Cash at bank	-	16,575,212	-	-	16,575,212
	5,683,806	20,216,257	–	1	25,900,064
Liabilities					
Amounts due to Group undertakings	-	-	51,344,124	-	51,344,124
Deferred taxation	-	-	-	33,715	33,715
Current taxation	-	-	-	1,241,093	1,241,093
	–	–	51,344,124	1,274,808	52,618,932
Equity					(26,718,868)
					25,900,064

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Financial instruments (continued)

2010	Available-for-sale £	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
Assets					
Investments in subsidiaries	-	-	-	211,820	211,820
Available-for-sale assets	9,294,079	-	-	-	9,294,079
Loans and receivables	-	2,328,214	-	-	2,328,214
Trade and other receivables	-	1,364,383	-	-	1,364,383
Cash at bank	-	13,061,948	-	-	13,061,948
	9,294,079	16,754,545	–	211,820	26,260,444
Liabilities					
Amounts due to Group undertakings	-	-	51,419,438	-	51,419,438
Deferred taxation	-	-	-	176,636	176,636
Current taxation	-	-	-	1,644,075	1,644,075
	–	–	51,419,438	1,820,711	53,240,149
Equity					(26,979,705)
					26,260,444

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

Valuation hierarchy

Financial assets and liabilities have been classified above according to a valuation hierarchy that reflects the valuation techniques used to determine fair value

Level 1 valued by reference to unadjusted quoted prices in active markets for identical assets and liabilities
Level 2 valued by reference to observable market data, other than quoted market prices
Level 3 valuation is based on inputs other than observable market data

The following tables show the financial instruments carried at fair value by hierarchy - level 1, level 2 and level 3

Available for sale assets·

2011	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Quoted equities	**370,592**	**-**	**-**	**370,592**
Unquoted equities	**-**	**-**	**5,313,214**	**5,313,214**
	370,592	**-**	**5,313,214**	**5,683,806**

2010	Level 1 £	Level 2 £	Level 3 £	Total £
Quoted equities	450,126	-	-	450,126
Unquoted equities	-	-	8,843,953	8,843,953
	450,126	-	8,843,953	9,294,079

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments (continued)

Level 3 portfolio movement tables

Available for sale assets	2011 £	2010 £
At 1 January	8,843,953	14,144,510
Losses recognised in the Income Statement	(6,918,598)	(4,268,840)
Gains recognised in the Statement of Comprehensive Income	6,844,704	(178,857)
Purchases	354,297	914,648
Sales and settlements	(283,069)	(1,256,639)
Foreign exchange	(3,528,073)	(510,869)
At 31 December	5,313,214	8,843,953

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 £	10-20 years £
Amounts due to parent company	18,316	-	51,325,808	-	-	-

2010	0 - 3 months £	3 - 12 months £	1 - 3 years £	3 - 5 years £	5-10 years £	10-20 years £
Amounts due to parent company	23,119	-	51,396,319	-	-	-

The Company's intra-group liabilities may in certain circumstances become repayable on demand pursuant to the terms of the capital support deed (see note 19, Related parties)

15. Financial Assets - impairments

The following table shows the movement in the provision for impairment of available-for-sale investments and investments in subsidiaries

	2011 £	2010 £
At 1 January	(33,105,858)	(17,703,856)
Charge to income statement	(6,918,598)	(15,402,002)
At 31 December	(40,024,456)	(33,105,858)

16. Risk management

The principal risks associated with the Company are as follows

Interest rate risk

Interest rate risk arises where assets and liabilities have different repricing maturities

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Risk management (continued)

Interest rate risk (continued)

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

	Interest bearing		Non interest-bearing		
	Within one year	After one year	Within one year	After one year	Total
2011	£	£	£	£	£
Financial assets					
Available-for-sale equity investments	-	-	-	5,683,806	5,683,806
Loans and receivables	2,258,604	-	-	-	2,258,604
Trade and other receivables	-	-	1,382,441	-	1,382,441
Cash at bank	16,575,212	-	-	-	16,575,212
	18,833,816	-	1,382,441	5,683,806	25,900,063
Financial liabilities					
Amounts due to Group companies	(18,316)	(51,325,808)	-	-	(51,344,124)
Net financial assets/(liabilities)	18,815,500	(51,325,808)	1,382,441	5,683,806	(25,444,061)

	Interest bearing		Non interest-bearing		
	Within one year	After one year	Within one year	After one year	Total
2010	£	£	£	£	£
Financial assets					
Available-for-sale equity investments	-	-	-	9,294,079	9,294,079
Loans and receivables	2,328,214	-	-	-	2,328,214
Trade and other receivables	-	-	1,364,383	-	1,364,383
Cash at bank	13,061,948	-	-	-	13,061,948
	15,390,162	-	1,364,383	9,294,079	26,048,624
Financial liabilities					
Amounts due to Group companies	(23,119)	(51,396,319)	-	-	(51,419,438)
Net financial assets/(liabilities)	15,413,281	(51,396,319)	1,364,383	9,294,079	(25,370,814)

	% interest rate range	
Interest rate	**2011**	2010
Loans and receivables	5%	5%
Loans from ultimate parent company (note 12)	0 57%-1 46%	0 39%-1 26%

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Risk management (continued)

Currency risk

The Company's policy is normally to match foreign currency receivables with borrowings in the same currency Any open position would be as a result of fair value adjustments to the financial assets This exposure would not be hedged as it is not structural in nature

The Company has exposure to currency risk on its loans and receivables, available-for-sale investments, inter-company loans and cash and cash equivalents

Credit risk

The objective of credit risk management is to enable the Company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the Company

The key principles of the Group's Credit Risk Management Framework are set out below

- Approval of all credit exposure is granted prior to any advance or extension of credit
- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure This includes a review of, amongst other things, the purpose of credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return
- Credit risk authority is dictated by the Board and specifically granted in writing to all individuals involved in the granting of credit approval In exercising credit authority, the individuals act independently of any related business revenue origination
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits Lower quality exposures are subject to a greater frequency of analysis and assessment

The following table analyses the credit exposure of the Company by type of asset

	2011	2010
	£	£
Cash at bank	**16,575,212**	13,061,948
Loans and receivables (note 10)	**2,258,604**	2,328,214
Trade and other receivables (note 11)	**1,382,441**	1,364,383
	20,216,257	16,754,545

Credit risk on the Company's liquid funds is limited because counterparties are banks with high credit ratings assigned by international credit-rating agencies, including other Group entities At 31 December 2011 there are no financial assets subject to credit risk, which are past due or impaired at the balance sheet date

16 Risk management (continued)

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities

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)

The contractual maturity of the Company's material liabilities is shown in note 14

Market risk

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

The sensitivity analysis below has been determined based on the Company's assets and liabilities present in the balance sheet as at the balance sheet date and by reference to a movement in market interest rates reasonable possible in the Company's next financial reporting period

Sensitivity analysis
If interest rates for the current year had been 50 basis points lower and this movement applied to the financial assets and financial liabilities as at the balance sheet date, the pre-tax loss for the year ended 31 December 2011 would have been £198,096 lower (2010 £198,152 lower) This would have mainly resulted from lower financing costs in respect of the Company's loans outweighing the lower interest income on its variable rate assets

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

If the Sterling had been 5% weaker against its currency positions at the balance sheet date, the loss for the year ended 31 December 2011 would have been £605,844 higher (2010 £471,111 higher) If the Sterling had appreciated by 5% the profit for the year would have been £548,146 lower (2010 £426,243 lower)

17. Share capital

Equity shares	2011 £	2010 £
Authorised		
5,000,000 preference shares of €1 each	**3,530,024**	3,530,024
4,000,000 ordinary shares of £1	**4,000,000**	4,000,000
	7,530,024	7,530,024
Allotted, called up and fully paid		
1,035,000 preference shares of €1 each	**730,777**	730,777
2,000,000 preference shares of €4 8814	**6,468,863**	6,468,863
1 ordinary share of £1	**1**	1
	7,199,641	7,199,641

17 Share capital (continued)

The Company has one class of ordinary shares which carry no right to fixed income

On 12 November 2003, the Company issued 1,035,000 zero-coupon redeemable preference shares of €1 These have been translated at 31 December 2003 at the year end exchange rate of 1 4163/£1 The nature of the consideration was cash

On 31 July 2004, the Company issued 2,000,000 zero-coupon redeemable preference shares with a nominal value of €1, at a premium value of €4 8814 These have been translated at 31 July 2004 at the exchange rate of €1 5092/£1 The nature of the consideration was cash

The 5,000,000 preference shares of €1 each entitle the holder to receive distributions on a pro-rata basis in respect of their shareholding percentage There is no set redemption date on these preference shares The preference shares also entitle the holder to one vote per share

18 Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings and loans from Group undertakings 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 Financial Services Authority's (FSA) capital requirements throughout the year

19. Related parties

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

Transactions between the Company, the UK Government and UK Government controlled bodies, consisted solely of corporation tax and Value Added Tax which are shown in note 7

Group undertakings

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

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

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

	2011	2010
	£	£
The Royal Bank of Scotland Group plc		
Interest paid on loan	**534,115**	515,223
Other Group companies		
Management fees paid	**35,104**	33,576
	569,219	548,799

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Related parties (continued)

Balances with other Group companies in the period 1 January to 31 December 2011 comprised

Assets	Note	2011 £	2010 £
The Royal Bank of Scotland Group plc			
Cash at bank		**16,575,212**	13,061,948
Liabilities			
The Royal Bank of Scotland Group plc			
Amounts owed to Group undertakings	12	**51,344,124**	51,419,438

Key management
The Company is a subsidiary of The Royal Bank of Scotland Group plc whose policy is for companies to bear the costs of their full time staff The time and costs of executives and other staff who are primarily employed by the Group are not specifically recharged However, the Group recharges subsidiaries for management fees which include an allocation of certain staff and administrative support costs

In the Company and the Group, key management comprise directors of the Company and members of the Group Executive Management Committee The emoluments of the directors of the Company are met by the Group

The directors of the Company do not receive remuneration for specific services provided to the Company

Capital support deed
The Company, together with other members of the Group, is party to a capital support deed (CSD) Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its Ordinary Shares The amount of this obligation is limited to the Company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediate funds (the Company's available resources) The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources