Company Registered Number: NI 069578

# WEST REGISTER (NORTHERN IRELAND) PROPERTY LIMITED

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2011

Group Secretariat
Ulster Bank Limited
11-16 Donegall Square East
Belfast
BT1 5UB

## CONTENTS

## OFFICERS AND PROFESSIONAL ADVISERS

| | |
|---|---|
| **DIRECTORS:** | B Feighan<br>H Gordon<br>J Rowney<br>N Sheikh |
| **SECRETARY:** | E Dignam |
| **REGISTERED OFFICE:** | 11-16 Donegall Square East<br>Belfast<br>BT1 5UB |
| **AUDITOR:** | Deloitte & Touche<br>Chartered Accountants & Registered Auditors<br>Deloitte & Touche House<br>Earlsfort Terrace<br>Dublin 2 |
| **BANKERS:** | Ulster Bank<br>11-16 Donegall Square East<br>Belfast<br>BT1 5UB |

## DIRECTORS' REPORT

The directors of West Register (Northern Ireland) Property Limited ("the Company") present their report together with the audited financial statements for the Company for the year ended 31 December 2011. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

## ACTIVITIES AND BUSINESS REVIEW

### Principal activity

The principal activity of the Company is property investment.

### Business review

In March 2011, the Company commenced operations and purchased an investment property in Northern Ireland. The Company has one asset as at year end, The Outlet, a shopping centre in Banbridge.

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 Ulster Bank Limited ("UBL") 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. The annual reports of UBL review these matters on a group basis. Copies can be obtained from The Secretary, Ulster Bank Limited, 11 – 16 Donegall Square East, Belfast, BT1 5UB.

The Company is part of the Ulster Bank Group ("the Group") and receives ongoing capital, funding and liquidity resources which, coupled with other sources of funding and liquidity, enable the Company to meet its obligations as they fall due.

### Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 7. The operating loss before taxation for the year was £4,046,303 (2010: £nil). The retained loss for the year was £4,279,750 (2010: £nil).

At the end of the year total assets were £22,285,333 (2010: £1).

### Dividends

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

### Principal risks and uncertainties

The major risks associated with the Company's business are operational, liquidity, interest rate and credit risks.

The Company is part of a group which has established a comprehensive framework for managing risks, which is continually evolving as business activities change in response to market, credit, product and other developments. The policies for managing risks and the Company's exposure thereto are detailed in note 13 to the financial statements. Details of the Company's critical accounting policies and key sources of estimation uncertainty are included in note 2.

### Going concern

The directors, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

**DIRECTORS' REPORT (continued)**

**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 |
|---|---|---|
| B Feighan | 26 October 2011 | – |
| H Gordon | 26 October 2011 | – |
| J Rowney | 26 October 2011 | – |
| N Sheikh | 26 October 2011 | – |
| A Blair | – | 30 June 2011 |
| D Hourican | – | 26 October 2011 |
| D Sach | – | 26 October 2011 |
| J Molloy | – | 30 June 2012 |

In accordance with the Articles of Association of the Company, the directors are not required to retire by rotation.

**Statement of directors' responsibilities**

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulation.

Company law requires the directors to prepare a directors' report and financial statements for each financial year. Under that law the directors have elected to prepare Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the 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 of the Company and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- 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 on the entity's financial position and financial 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 enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**DIRECTORS' REPORT (continued)**

**Directors' disclosure to auditors**

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

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

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

**Directors' indemnities**

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

**Events since the year end**

There have been no significant events between the year end and the date of approval of the financial statements which would require a change or additional disclosure in the financial statements.

**Auditors**

The auditors Deloitte & Touche, Chartered Accountants and Registered Auditors, have indicated their willingness to continue in office as auditors.

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

B Feighan

Date: 24 July 2012

West Register (Northern Ireland) Property Limited
NI 069578
Registered in Northern Ireland

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WEST REGISTER (NORTHERN IRELAND) PROPERTY LIMITED**

We have audited the financial statements of West Register (Northern Ireland) Property Limited for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

**Respective responsibilities of directors and auditors**
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 identity 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 IFRS 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 AUDITORS' REPORT TO THE MEMBERS OF WEST REGISTER (NORTHERN IRELAND) PROPERTY 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.

Martin Reilly (Senior Statutory Auditor)
for and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditor
Dublin
24 July 2012

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

| Continuing operations | Note | 2011 £ | 2010 £ |
|---|---|---|---|
| Rental income | | 1,847,280 | - |
| Other operating income | 3 | 471,283 | |
| **Non-interest income** | | 2,318,563 | - |
| Interest payable | | (202,983) | - |
| Operating expenses | 4 | (1,161,883) | - |
| **Operating profit before revaluation losses** | | 953,697 | - |
| Revaluation loss on investment property | 6 | (5,000,000) | - |
| **Operating loss before tax** | | (4,046,303) | - |
| Tax charge | 5 | (233,447) | - |
| **Loss and total comprehensive loss for the year** | | (4,279,750) | - |

The Company had no recognised income or expenses in the financial year or preceding financial year other than those dealt with in the Statement of Comprehensive Income.

The accompanying notes on pages 11 to 20 form an integral part of these financial statements.

**BALANCE SHEET**
**as at 31 December 2011**

| | Note | 2011 £ | 2010 £ |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 6,12 | 21,105,697 | - |
| | | | |
| **Current assets** | | | |
| Cash at bank | 7,12 | 412,188 | 1 |
| Trade and other receivables | 8,12 | 671,556 | - |
| Prepayments, accrued income and other assets | 9,12 | 95,892 | - |
| | | 1,179,636 | 1 |
| | | | |
| **Total assets** | | 22,285,333 | 1 |
| | | | |
| **Non-current liabilities** | | | |
| Deferred tax liability | 11,12 | 98,041 | - |
| | | | |
| **Current liabilities** | | | |
| Amounts due to Group undertakings | 12,16 | 26,323,679 | - |
| Accruals, deferred income and other liabilities | 10,12 | 7,956 | - |
| Current tax liability | 5,12 | 135,406 | - |
| | | 26,467,041 | - |
| | | | |
| **Total liabilities** | | 26,565,082 | - |
| | | | |
| **Equity** | | | |
| Share capital | 14 | 1 | 1 |
| Retained earnings | | (4,279,750) | - |
| **Total equity** | | (4,279,749) | 1 |
| | | | |
| **Total liabilities and equity** | | 22,285,333 | 1 |

The accompanying notes on pages 11 to 20 form an integral part of these financial statements.

The financial statements of the Company were approved by the Board of Directors on 24 July 2012 and signed on its behalf by:

B Feighan

West Register (NI) Property Limited
NI 069578
Registered in Northern Ireland

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

| | Share capital £ | Retained earnings £ | Total £ |
|---|---|---|---|
| **At 1 January and 31 December 2010** | 1 | - | 1 |
| Loss for the year | - | (4,279,750) | (4,279,750) |
| **At 31 December 2011** | 1 | (4,279,750) | (4,279,749) |

Total comprehensive loss for the year of £4,279,750 (2010: £nil) was wholly attributable to the equity holders of the Company.

The accompanying notes on pages 11 to 20 form an integral part of these financial statements.

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

| | 2011 £ | 2010 £ |
|---|---|---|
| **Operating activities** | | |
| Operating loss for the year before tax | **(4,046,303)** | - |
| Adjustments for: | | |
| Revaluation loss on investment property | **5,000,000** | - |
| Interest on amounts due to Group undertakings | **202,983** | - |
| **Operating cash flows before movements in working capital** | **1,156,680** | - |
| Increase in trade and other receivables | **(671,556)** | - |
| Increase in other assets and prepayments | **(95,892)** | - |
| Increase in accruals and deferred income | **7,956** | - |
| **Net cash flows from operating activities** | **397,188** | - |
| **Cash flows from investing activities** | | |
| Purchases of investment property | **(26,105,697)** | - |
| **Net cash flows used in investing activities** | **(26,105,697)** | - |
| **Cash flows from financing activities** | | |
| Loan received from Group | **26,120,696** | - |
| **Net cash flows used in financing activities** | **26,120,696** | - |
| **Net increase in cash and cash equivalents** | **412,187** | - |
| Cash and cash equivalents at 1 January | **1** | 1 |
| **Cash and cash equivalents at 31 December** | **412,188** | 1 |

The accompanying notes on pages 11 to 20 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

**a) Presentation of financial statements**
The financial statements are prepared on a going concern basis and in accordance with IFRS issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS). The Company's financial statements are presented in accordance with the Companies Act 2006.

The Company is incorporated in the UK and registered in Northern Ireland.

The financial statements are prepared on the historical cost basis except for investment property which is stated at fair value.

**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) Foreign currencies**
The Company's financial statements are presented in Sterling which is the functional currency of the Company.

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. Foreign exchange differences arising on translations are reported in the Statement of Comprehensive Income. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into sterling at foreign exchange rates ruling at the dates the values were determined.

**c) Revenue recognition**
Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss 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.

**d) Taxation**
Income tax expense or income, comprising current tax and deferred tax, is recorded in the Statement of Comprehensive Income 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.

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

**1. Accounting policies (continued)**

**d) Taxation (continued)**

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.

**e) Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Fair value is based on current prices for similar properties in the same location and condition using internal valuation models based on yield comparables and any available recent market transactions taking cognisance of the principles of Royal Institute of Chartered Surveyors (RICS) valuation methodology.

Fair value of the investment properties is determined on at least an annual basis by officers of the Company. A selection of properties may be valued by external appointed surveyors from time to time as the commercial need arises. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

**f) Leases**

Rental income from operating leases is credited to the Statement of Comprehensive Income on a receivable basis over the term of the lease. Operating lease assets are included within investment property and subjected to revaluation (see accounting policy e). Operating lease rentals are included in non interest income.

Lease incentives are offered to tenants as an inducement to enter lease agreements. Lease incentives were paid out in the form of capital contributions during the period. Lease incentives are amortised over the agreed lease period and may clawed back in the event of default under the terms of individual leases

Property operating expenses are expensed as incurred and any property operating expenditure not recovered from tenants through service charges is charged to the Statement of Comprehensive Income.

**g) Financial assets**

On initial recognition, financial assets are classified into loans and receivables.

**Loans and receivables**

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, 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 c) less any impairment losses.

**h) Financial liabilities**

On initial recognition financial liabilities are classified into amortised cost.

**Amortised cost**

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

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

**1. Accounting policies (continued)**

**i) Cash and cash equivalents**
Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value

**j) 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 the credit rating of the issuer it is recognised not in profit or loss but 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 not have a significant effect on the Company's financial statements.

'Disclosures - Transfers of Financial Assets (Amendments to IFRS 7)' was published by the IASB in October 2010. This replaces IFRS 7's existing derecognition disclosure requirements with disclosures about (a) transferred assets that are not derecognised in their entirety and (b) transferred assets that are derecognised in their entirety but where an entity has continuing involvement in the transferred asset. The amendments are effective for annual periods beginning on or after 1 July 2011. This will not have a significant effect on the Company.

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.

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

**1. Accounting policies (continued)**

**j) Accounting developments (continued)**

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.

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. Revised standards IFRS 10-13 must be adopted at the same time. 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. The amendment is effective for accounting periods ending on or after 1 July 2012. Earlier application is permitted. The Company is reviewing the amendment to determine the effect on the Company's financial reporting.

Amendments to IAS 19 Employee Benefits requires 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. The amendment is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The amendment will not have a material effect on the Company's financial reporting.

In December 2011, the IASB issued 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' and 'Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)'. The amendment to IAS 32 adds application guidance on the meaning of 'a legally enforceable right to set off' and on simultaneous settlement. IFRS 7 is amended to require disclosures facilitating comparisons between those entities reporting under IFRS and those reporting under US GAAP. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and are also required to be applied retrospectively.

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

## 1. Accounting policies (continued)

### j) Accounting developments (continued)

The IASB issued "Annual Improvements to IFRSs 2009-2011 Cycle" in May 2012 implementing minor changes to IFRSs, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording. The revisions are effective for annual accounting periods beginning on or after 1 January 2013 and are not expected to have a material effect on the Company.

## 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. 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

**Valuation of investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Fair value is based on current prices for similar properties in the same location and condition using internal valuation models based on yield comparables and any available recent market transactions taking cognisance of the principles of Royal Institute of Chartered Surveyors (RICS) valuation methodology.

Fair value of the investment properties is determined on at least an annual basis by officers of the Group. A selection of properties may be valued by external appointed surveyors from time to time as the commercial need arises. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

## 3. Other operating income

| | **2011** | 2010 |
|---|---|---|
| | **£** | £ |
| Surrender premium income | **180,000** | - |
| Other income | **291,283** | - |
| Other operating income | **471,283** | - |

## 4. Operating expenses

| | **2011** | 2010 |
|---|---|---|
| | **£** | £ |
| Provision for Bad Debts | **178,794** | - |
| Professional Fees | **100,209** | - |
| Property Service Charge | **503,358** | - |
| Marketing | **255,000** | - |
| Management fees | **124,522** | - |
| **Operating expenses** | **1,161,883** | - |

The auditor's remuneration for statutory audit work for the Company was borne by Ulster Bank Limited. Remuneration paid to the auditor for non-audit work for the Company was £nil (2010: £nil).

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

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

## 5. Taxation

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| **Current taxation:** | | |
| UK corporation tax charge for the year | 135,406 | - |
| | 135,406 | - |
| **Deferred taxation:** | | |
| Charge for the period | 98,041 | - |
| | 98,041 | - |
| Tax charge for the year | 233,447 | - |

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

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| **Operating loss before tax:** | (4,046,303) | - |
| Expected tax credit: | (1,052,912) | - |
| Transfer pricing adjustments | (31,220) | - |
| Non deductible items | 1,321,585 | - |
| Reduction in deferred tax liability following change in rate of UK Corporation tax | (4,006) | - |
| Actual tax charge for the year | 233,447 | - |

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

## 6. Investment Property

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| **Cost** | | |
| At 1 January | - | - |
| Additions | 26,105,697 | - |
| Revaluation loss on investment property charged to Statement of Comprehensive Income | (5,000,000) | - |
| At 31 December | 21,105,697 | - |

## 7. Cash at bank

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| Cash at bank - Group | 412,188 | 1 |

## 8. Trade and other receivables

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| Trade receivables | 199,056 | - |
| Lease incentive debtor | 472,500 | - |
| | 671,556 | - |

## 9. Prepayments, accrued income and other assets

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| VAT receivable | 95,892 | - |

## 10. Accruals, deferred income and other liabilities

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| Deferred income | 7,956 | - |

## 11. Deferred taxation

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

| | Accelerated capital allowances<br>£ |
|---|---|
| **At 1 January 2011** | - |
| Charge to income | 98,041 |
| **At 31 December 2011** | 98,041 |

## 12. Financial instruments

The following tables analyse the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown separately.

| 2011 | Loans and receivables<br>£ | Other amortised cost<br>£ | Non financial assets/ liabilities<br>£ | Total<br>£ |
|---|---|---|---|---|
| **Assets** | | | | |
| Investment property | - | - | 21,105,697 | 21,105,697 |
| Trade and other receivables | 671,556 | - | - | 671,556 |
| Prepayments, accrued income and other assets | - | - | 95,892 | 95,892 |
| Cash at bank | 412,188 | - | - | 412,188 |
| | 1,083,744 | - | 21,201,589 | 22,285,333 |
| **Liabilities** | | | | |
| Deferred tax liability | - | - | 98,041 | 98,041 |
| Amounts due to Group undertakings | - | 26,323,679 | - | 26,323,679 |
| Accruals, deferred income and other liabilities | - | 7,956 | - | 7,956 |
| Current tax liability | - | - | 135,406 | 135,406 |
| | - | 26,331,635 | 233,447 | 26,565,082 |
| **Equity** | | | | (4,279,749) |
| | | | | 22,285,333 |

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

**12. Financial instruments (continued)**

| 2010 | Loans and receivables £ | Other amortised cost £ | Non financial assets/ liabilities £ | Total £ |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash at bank | 1 | - | - | 1 |
| | 1 | - | - | 1 |
| **Equity** | | | | 1 |
| | | | | 1 |

There are no material differences between the carrying value and fair value of financial instruments.

Financial liabilities are due from Group undertakings located in Northern Ireland, are repayable on demand and fall into the finance industry category.

**13. Risk management**

The Company's risk management function is fully integrated with the risk management function of the Group. As a result, the policies and procedures used to manage risk have been incorporated within those of the Group.

The major risks to which the Company is exposed are operational risk and interest rate risk. The Group has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by both Executive and Board Committees.

The Group has established a comprehensive framework for managing risks which is continually evolving as the Group's business activities change in response to market, credit, product and other developments.

**Operational risk**
Operational risks are inherent in the Company's business. Operational risk losses occur as the result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The key processes include risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process and the self certification process. The implementation of this process is facilitated and overseen by operational risk teams, with internal audit providing independent evaluation of the control framework.

**Liquidity risk**
The Company has no material liquidity risk as it has access to Group funding.

**Interest rate risk**

The financial liabilities of the Company consist of bank overdraft balances due to Group undertakings. Interest rate risk arises on bank overdraft balances based on variable interest rates.

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

**13. Risk management (continued)**

**Credit risk**

Credit risk is the risk of financial loss owing to failure of customers or counterparties to meet payment obligations. The quantum and nature of credit risk assumed in the Group's different businesses varies considerably, while the overall credit risk outcome usually exhibits a high degree of correlation to the macroeconomic environment.

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

- 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.

- 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 (see note 8 & 9).

**14. Share capital**

| Equity shares | **2011** **£** | 2010 £ |
|---|---|---|
| Authorised: | | |
| 100 Ordinary Shares of £1 | **100** | 100 |
| Allotted, called up and fully paid: | | |
| 1 Ordinary Shares of £1 | **1** | 1 |

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

**15. Capital resources**

The Company's capital consists of equity comprising issued share capital. The Company is a member of the Ulster Bank 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.

**16. 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.

The Company enters into transactions with these bodies on an arms' length basis; they include the payment of taxes including UK corporation tax, value added tax and rates.

**Group undertakings**
The Company's immediate parent Company is Ulster Bank Limited.

The Company's ultimate holding Company and the parent of the largest group into which the Company is consolidated, is the RBS Group which is incorporated in Great Britain and registered in Scotland. Copies of the accounts for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

The smallest subgroup into which the Company is consolidated is Ulster Bank Limited, a Company incorporated in Northern Ireland. The financial statements for Ulster Bank Limited can be obtained from The Secretary, 11 – 16 Donegall Square East, Belfast, BT1 5UB.

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

**16. Related parties (continued)**

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

| Interest payable | 2011 £ | 2010 £ |
|---|---|---|
| Ulster Bank Limited | 202,983 | - |

Balances with other Group companies as at 31 December comprised:

| | 2011 £ | 2010 £ |
|---|---|---|
| **Assets** | | |
| Cash at bank - Ulster Bank Limited | 412,188 | 1 |
| **Liabilities** | | |
| **Amounts due to Group Companies:** | | |
| Ulster Bank Limited | 26,323,679 | - |
| | 26,323,679 | - |

**Key management**

The Company is a subsidiary of the RBS Group 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 RBS Group are not specifically recharged.

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, immediately funds (the Company's available resources). The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

**17. Events since the year end**

There have been no significant events between the year end and the date of approval of the financial statements which would require a change or additional disclosure in the financial statements.