Company Registered No: 03315488

PRIORITY SITES INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2012

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A36 30/09/2013 #221
COMPANIES HOUSE

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2012

CONTENTS

PRIORITY SITES INVESTMENTS LIMITED 03315488

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	I F Nicol J M Rowney B I M Turnbull
SECRETARY:	M Gow
REGISTERED OFFICE:	135 Bishopsgate London EC2M 3UR
AUDITOR:	Deloitte LLP Leeds

Registered in England and Wales

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2012

ACTIVITIES AND BUSINESS REVIEW

Activity
The principal activity of the company continues to be property investment

The company's immediate parent company, Priority Sites Limited, became a wholly owned subsidiary of The Royal Bank of Scotland Group plc ("the Group") on the 26 October 2012 The Group 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 RBS Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's website at rbs com

Review of the year

Business review
The company continued to achieve lettings and disposals throughout the estate not withstanding the challenging economic climate The directors are satisfied with the company's operational performance in the year with the fair value movement relating to market factors detailed in note 2 The company will be guided by its shareholder moving forward

Financial performance and dividends
The company's financial performance is presented on page 8

Income reduced by £136,939 (2011 £369,808) and administration expenses increased by £63,070 (2011 reduction of £114,042) After impairment losses of £965,000 (2011 £8,957,399), the loss for the year was £703,590 (2011 loss of £8,358,155)

At the end of the year, the balance sheet showed total assets of £12,295,182 (2011 £12,665,543), and total shareholders' deficit of £4,389,857 (2011 £3,686,267)

The directors do not recommend payment of a dividend (2011 £4,000 per share)

Principal risks and uncertainties
The company is funded by facilities from its parent Priority Sites Limited which became a wholly owned subsidiary of The Royal Bank of Scotland Group plc on the 26 October 2012

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 17 to these financial statements

The company seeks to minimise its exposure to external financial risks other than credit risk Further information on financial risk management policies and exposures is disclosed in note 17 It also has exposure to asset risk on the residual value of investment properties For more details see note 9

DIRECTORS' REPORT (continued)

GOING CONCERN

The directors having considered the uncertainties prevailing in the real estate market and wider economic climate and having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis The directors have considered the interim announcement of The Royal Bank of Scotland Group plc for the six months ended 30th June 2013 approved on 1 August 2013 which was 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 2

From 1 January 2012 to date the following changes have taken place

	Appointed	Resigned
Directors		
A C O'Shaughnessy		29 October 2012
P A Richie (alternate to A C O'Shaughnessy)		29 October 2012
A C O'Shaughnessy (alternate to P A Richie)		29 October 2012
G Blacker		29 October 2012
P A Richie		29 October 2012
A C O'Shaughnessy (alternate to G Blacker)		29 October 2012
G Blacker (alternate to A C O'Shaughnessy)		29 October 2012
G Blacker (alternate to P A Richie)		29 October 2012
P A Richie (alternate to G Blacker)		29 October 2012
D S Sach		29 October 2012
R H Beattie		29 October 2012
I F Nicol	29 October 2012	
R H Beattie (alternate to J M Rowney)		29 October 2012
J M Rowney (alternate to R H Beattie)		29 October 2012
J M Rowney (alternate to D S Sach)		29 October 2012
D S Sach (alternate to J M Rowney)		29 October 2012
Secretary		
M Gow	27 April 2012	
R E Fletcher		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 Under that law the directors have elected to prepare them in accordance with Financial Reporting Standard 101 Reduced Disclosure Frameworks Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

DIRECTORS' INDEMNITIES

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

AUDITOR

Deloitte LLP has expressed its willingness to continue in office as auditor

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

Barbara I M Turnbull

Barbara Turnbull
Director
Date 26 September 2013

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

We have audited the financial statements of Priority Sites Investments Limited ('the company') for the year ended 31 December 2012 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 20 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standard 101 Reduced Disclosure Framework

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Matters on which we are required to report by exception

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

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

David Johnson BA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
Leeds, UK
Date 27 September 2013

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

Continuing operations	Notes	2012 £	2011 £
Turnover	3	1,461,370	1,598,309
Administrative expenses		(141,734)	(78,664)
Decrease in fair value of investment property	9	(965,000)	(8,957,399)
Operating profit/(loss)	4	354,636	(7,437,754)
Interest receivable		-	108
Interest payable	5	(985,236)	(893,957)
Loss on ordinary activities before tax		(630,600)	(8,331,603)
Tax charge	6	(72,990)	(26,552)
Loss and total comprehensive loss for the year		(703,590)	(8,358,155)

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
as at 31 December 2012

	Notes	2012	2011
		£	£
Fixed assets			
Investment property	9	11,375,000	12,340,000
		11,375,000	12,340,000
Current assets			
Trade and other receivables	10	696,236	49,121
Prepayments, accrued income and other assets	11	76,466	148,366
Cash		147,480	128,056
		920,182	325,543
Total assets		12,295,182	12,665,543
Creditors: amounts falling due within one year			
Trade and other payables	12	1,248,752	975,486
Borrowings	14	-	3,000,000
		1,248,752	3,975,486
Creditor: amounts falling due after one year			
Amounts due to parent undertaking	15	15,219,059	12,202,866
Deferred tax liability	13	217,228	173,458
		15,436,287	12,376,324
Total liabilities		16,685,039	16,351,810
Equity: Capital and reserves			
Called up share capital	18	1,000	1,000
Profit and loss account		(4,390,857)	(3,687,267)
Total shareholders' deficit		(4,389,857)	(3,686,267)
Total liabilities and shareholders' deficit		12,295,182	12,665,543

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors on 26 September 2013 and signed on its behalf by

Barbara M Turnbull

Barbara Turnbull
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

	Note	Share capital £	Retained earnings £	Total £
At 1 January 2011		1,000	8,670,888	8,671,888
Loss for the year		-	(8,358,155)	(8,358,155)
Dividends paid	7	-	(4,000,000)	(4,000,000)
At 31 December 2011		1,000	(3,687,267)	(3,686,267)
Loss for the year		-	(703,590)	(703,590)
At 31 December 2012		1,000	(4,390,857)	(4,389,857))

Total comprehensive loss for the year of £703,590 (2011 loss of £8,358,155) was wholly attributable to the owners of the company

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Presentation of accounts

The company meets the definition of a qualifying entity under FRS100 (Financial Reporting Standard 100) issued by the Financial Reporting Council Accordingly, in the year ended 31 December 2012 the company has changed from reporting under IFRSs adopted by the European Union to FRS 101 as issued by the Financial reporting Council which the company has adopted early The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council This transition is not considered to have had a material effect on the financial statements

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions Where required, equivalent disclosures are given in the group accounts of The Royal Bank of Scotland Group plc, these accounts are available to the public and can be obtained as set out in note 20

The accounts are prepared on the historical cost basis except for investment property which is stated at 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 accounts are presented in accordance with the Companies Act 2006

There are number of IFRSs that were effective from 1 January 2012 They have had no material effect on the company's financial statement for the year ended 31 December 2012

b) Revenue recognition

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

c) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the profit and loss account 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)

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

d) Investment property
Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both Investment property is not depreciated but is stated at fair value based on internal valuations carried out by qualified professionals Fair value is based on current prices for similar properties in the same location and condition

e) Provisions
The company recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably

f) Financial assets
On initial recognition, financial assets are classified into held-to-maturity investments, held-for-trading, designated as at fair value through profit or loss, loans and receivables, or available-for-sale financial assets

Loans and receivables
Loans and receivables are initially recognised at fair value plus directly related transaction costs They are subsequently measured at amortised cost using the effective interest method less any impairment losses

All financial assets are classified as loans and receivables unless otherwise indicated

Other financial assets
Other financial assets are initially recognised and subsequently measured at fair value Changes in fair value are recognised in the statement of comprehensive income

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

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

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 held-to-maturity, available-for-sale or loans and receivables is impaired A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

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

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

j) Cash and cash equivalents
Cash and cash equivalents comprise 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

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

As set out in note 1, investment properties are held on the balance sheet at fair value This value is determined through internal valuations carried out by qualified professionals These valuations are reviewed on a bi-annual basis by management and are updated accordingly in the event that there are indicators of impairment The Royal Bank of Scotland plc ("RBS plc") through its specialist Real Estate vehicle 'West Register' conducted a detailed review of the estate as at the year end

The findings resulted in some impairment of book values Priority Sites Investments Limited owns assets in economically challenging areas These particular locations have experienced more acute falls in capital values than the average for the UK commercial property sector This is due in the main to the current economic distress and absence of both bank and institutional funding for such assets

3. Turnover

	2012	2011
	£	£
Rental income	1,461,370	1,598,309
	1,461,370	1,598,309

All turnover arose in the UK in both the current year and prior year

4. Operating profit/(loss)

Operating profit/(loss) before tax is stated after charging:

	2012	2011
	£	£
Auditor's remuneration – fees payable to the company's auditor for the audit of the company's annual accounts	5,000	5,000
Decrease in fair value of investment properties	965,000	8,957,399

Staff costs, number of employees and directors' remuneration

No director received remuneration from the company during the period (2011 £nil) The company has no employees (2011 nil) The directors are employees of the ultimate shareholder organisation It is impractical to determine the amount of that remuneration which relates to services to this company

5. Finance costs

	2012	2011
	£	£
Investment loan (note 19)	130,210	130,310
Interest on loan from parent undertaking (note 19)	855,026	763,647
	985,236	893,957

6. Tax

	2012	2011
	£	£
Current taxation:		
UK corporation tax charge for the year	20,519	155,940
Under provision in respect of prior periods	8,701	57,471
	29,220	213,411
Deferred taxation:		
Charge/(Credit) for the year	43,770	(117,565)
Over provision in respect of prior periods	-	(69,294)
	43,770	(186,859)
Tax charge for the year	72,990	26,552

6. Tax (continued)

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 24 5% (2011 26 5%) as follows

	2012 £	2011 £
Expected tax credit	(154,480)	(2,207,309)
Non deductible items	236,398	2,271,359
Non-taxable items	-	(9,852)
Reduction in deferred tax following change in rate of UK corporation tax	(17,629)	(15,823)
Adjustments in respect of prior periods	8,701	(11,823)
Actual tax charge for the year	72,990	26,552

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest enacted rate standing at 23% with effect from 1 April 2013 Further reductions of the rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015 were announced on 5 December 2012 and 20 March 2013 respectively, but not substantively enacted at the balance sheet date Accordingly the closing deferred tax assets and liabilities have been calculated at 23%

7. Ordinary dividends

	2012 £	2011 £
Dividends paid of £Nil (2011 £4,000) per share	-	4,000,000

8. Operating lease arrangements

At the balance sheet date, the company had contracted with customers for the following future minimum lease rentals payable under non-cancellable operating leases

	Within 1 year £	Between 1 and 5 years £	After 5 years £	Total £
2012	1,388,891	2,334,904	626,229	4,350,024
2011	1,422,768	3,435,985	627,721	5,486,474

Nature of operating lease assets in the balance sheet:	2012 £	2011 £
Property	4,350,024	5,486,474
	4,350,024	5,486,474

Leases are granted on the basis of the tenants having responsibility for full repairing and insurance obligation Under the terms of the leases, payments are made quarterly in advance

9. Investment property

	2012	2011
	£	£
At 1 January	12,340,000	21,297,399
Change in fair value	(965,000)	(8,957,399)
At 31 December	11,375,000	12,340,000

The fair value of the company's investment property at 31 December 2012 has been arrived at on the basis of valuations prepared by in-house surveyors who at that date were holding a recognised professional qualification and having post-qualification experience in the location and category of the properties concerned The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties

The company has pledged all of its investment property to secure general banking facilities granted to the immediate parent At the balance sheet date there was no contractual obligation to sell any of the properties

The property rental income earned by the company from its investment property, all of which is leased out under operating leases, amounted to £1,461,370 (2011 £1,598,309) Direct operating expenses arising on the investment property during the year amounted to £141,734 (2011 £78,664)

The value of the investment property valued on an historical cost basis would be as follows

	2012	2011
	£	£
Investment property at historical cost	19,422,415	19,422,415

10 Trade and other receivables

	2012	2011
	£	£
Trade receivables	396,058	-
Other receivables	300,178	-
Amount due from ultimate parent undertaking	-	49,121
	696,236	49,121

The fair value of all receivables approximates to their carrying amount in the balance sheet

11. Prepayments, accrued income and other assets

	2012	2011
	£	£
Prepayments	-	51,300
Accrued income	76,466	97,066
	76,466	148,366

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

12. Trade and other payables

	2012 £	2011 £
Corporation tax payable (note 20)	20,519	213,411
Current tax liability (note 20)	222,112	-
Value added tax (note 20)	124,643	83,587
Accruals and deferred income	812,651	678,488
Accruals with parent undertaking (note 20)	68,827	-
	1,248,752	975,486

The fair value of all payables approximates to their carrying amount in the balance sheet

13. Deferred tax

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

	Capital allowances £	Deferred gains £	Total £
At 1 January 2011	256,628	103,689	360,317
Credit to income	(83,170)	(103,689)	(186,859)
At 31 December 2011	173,458	-	173,458
Charge to income	43,770	-	43,770
At 31 December 2012	217,228	-	217,228

14. Borrowings

Investment loan	2012 £	2011 £
As at 1 January	3,000,000	3,000,000
Repayments in the period	(3,000,000)	-
As at 31 December	-	3,000,000

The investment loan has been fully repaid during the year

15. Amounts due to parent undertaking

Loan	2012 £	2011 £
As at 1 January	12,202,866	7,960,152
Advances in the period	3,016,193	4,242,714
As at 31 December	15,219,059	12,202,866

The company pays interest on an unsecured loan from its immediate parent Priority Sites Limited The rate of interest was fixed at a rate of 6 63% for the period (2011 6 63%)

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Amounts due to parent undertaking (continued)

The amounts due to the parent company are repayable only at such time that this is considered affordable by the directors of Priority Sites Investments Limited The parent company has confirmed that it does not intend to seek repayment of the loan within 12 months of the balance sheet date

16. Financial instruments

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

2012	0 - 3 months £	3 – 12 months £	1 - 3 years £	3 – 5 years £	5-10 years £	10-20 years £
Trade and other payables	(1,248,752)	-	-	-	-	-
	(1,248,752)	-	-	-	-	-

The amounts due to the parent company of £15,219,059 (2011 £12,202,866) are repayable only at such a time that this is considered affordable by the directors of Priority Sites Investments Limited (2011 same) The parent company has confirmed that it does not intend to seek repayment of the loan within 12 months of the balance sheet date (2011 same) As such the timings of cash flows relating to this loan are unknown, therefore the loan has been excluded from the table shown above, and below

2011	0 - 3 months £	3 - 12 months £	1 - 3 years £	3 – 5 years £	5-10 years £	10-20 years £
Trade and other payables	(975,486)	-	-	-	-	-
Borrowings	(36,225)	(3,108,675)	-	-	-	-
	(1,011,711)	(3,108,675)	-	-	-	-

16. Financial instruments (continued)

Categories of financial instrument

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

2012	Loans and receivables £	At amortised cost £	Non financial assets/ (liabilities) £	Total £
Assets				
Investment property	-	-	11,375,000	11,375,000
Trade and other receivables	696,236	-	-	696,236
Prepayments and accrued income	76,466	-	-	76,466
Cash	-	147,480	-	147,480
	772,702	147,480	11,375,000	12,295,182
Liabilities				
Trade and other payables	-	(1,248,752)	-	(1,248,752)
Amounts due to parent undertaking	-	(15,219,059)	-	(15,219,059)
Deferred tax liability	-	-	(217,228)	(217,228)
	-	(16,467,811)	(217,228)	(16,685,039)
Total shareholders' deficit				(4,389,857)

2011	Loans and receivables £	At amortised cost £	Non financial assets/ (liabilities) £	Total £
Assets				
Investment property	-	-	12,340,000	12,340,000
Trade and other receivables	49,121	-	-	49,121
Prepayments and accrued income	148,366	-	-	148,366
Cash	-	128,056	-	128,056
	197,487	128,056	12,340,000	12,665,543
Liabilities				
Trade and other payables	-	(975,486)	-	(975,486)
Borrowings	-	(3,000,000)	-	(3,000,000)
Amounts due to parent undertaking	-	(12,202,866)	-	(12,202,866)
Deferred tax liability	-	-	(173,458)	(173,458)
	-	(16,178,352)	(173,458)	(16,351,810)
Total shareholders' deficit				(3,686,267)

16. Financial instruments (continued)

Fair value

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

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

	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair value
Financial assets	£	£	£	£
Trade and other receivables	696,236	696,236	49,121	49,121
Cash	147,480	147,480	128,056	128,056
Financial liabilities				
Borrowings	-	-	(3,000,000)	(3,000,000)
Trade and other payables	(1,248,752	(1,248,752)	(975,486)	(975,486)

The amounts due to the parent company with a carrying value of £15,219,059 (2011 £12,202,866) are repayable only at such a time that this is considered affordable by the directors of Priority Sites Investments Limited (2011 same) The parent company has confirmed that it does not intend to seek repayment of the loan within 12 months of the balance sheet date (2011 same) As such the timings of cash flows cannot be calculated, therefore the loan has been excluded from the table shown above (2011 same)

Credit quality

The probability of default on the company's financial assets is considered as low due to the company's risk management policies and procedures as set out in note 17

17. Financial 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 financial liabilities of the company consist of amounts due to group undertakings and third party and other trade payables The third party trade and other payables do not have any significant interest rate risk as the company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc as detailed in that company's directors' report

The company's loans are based on agreed fixed rates of interest to the end of their term and therefore there is no exposure to interest rate risk

17. Financial risk management (continued)

Currency risk

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company The key principles of the company's Credit Risk policy are set out below

- For sales of property, customers pay on completion resulting in no credit risk
- For leased properties, prospective tenants are vetted for their credit worthiness

Credit risk is monitored by the Board on a monthly basis and formed part of the considerations when West Register completed its valuations review on behalf of Group

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)

Market risk

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

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

18. Share capital

	2012	2011
	£	£
Allotted, called up and fully paid:		
Equity shares		
1,000 ordinary shares of £1	1,000	1,000

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

19. 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 RBS group has complied with the FSA's capital requirements throughout the year

20. 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

Group Undertakings

The company's immediate parent company is Priority Sites Limited, a company incorporated in Great Britain and registered in England and Wales As at 31 December 2012 The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland, heads the smallest group in which the company is consolidated Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland plc, Gogarburn, Edinburgh, EH12 1HQ

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland As at 31 December 2012, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ

Transactions with related parties in the period 1 January to 31 December comprised

	2012 £	2011 £
Expenses (finance costs):		
Interest payable on investment loan from The Royal Bank of Scotland plc (note 5)	(130,210)	(130,310)
Interest payable on loan from Priority Sites Limited (note 5)	(855,026)	(763,647)

20. Related parties (continued)

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

	2012 £	2011 £
Payable		
Investment loan from The Royal Bank of Scotland plc (note 14)	-	(3,000,000)
Loan from Priority Sites Limited (note 15)	(15,219,059)	(12,202,866)
Current tax liability (note 12)	(222,112)	-
Interest payable to Priority Sites Limited (note 12)	(68,827)	-

	2012 £	2011 £
Receivable		
Trade and other receivables from The Royal Bank of Scotland plc (note 10)	-	49,121

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

	2012 £	2011 £
Payable		
Central Government – payable (note 12)	(145,162)	(296,998)